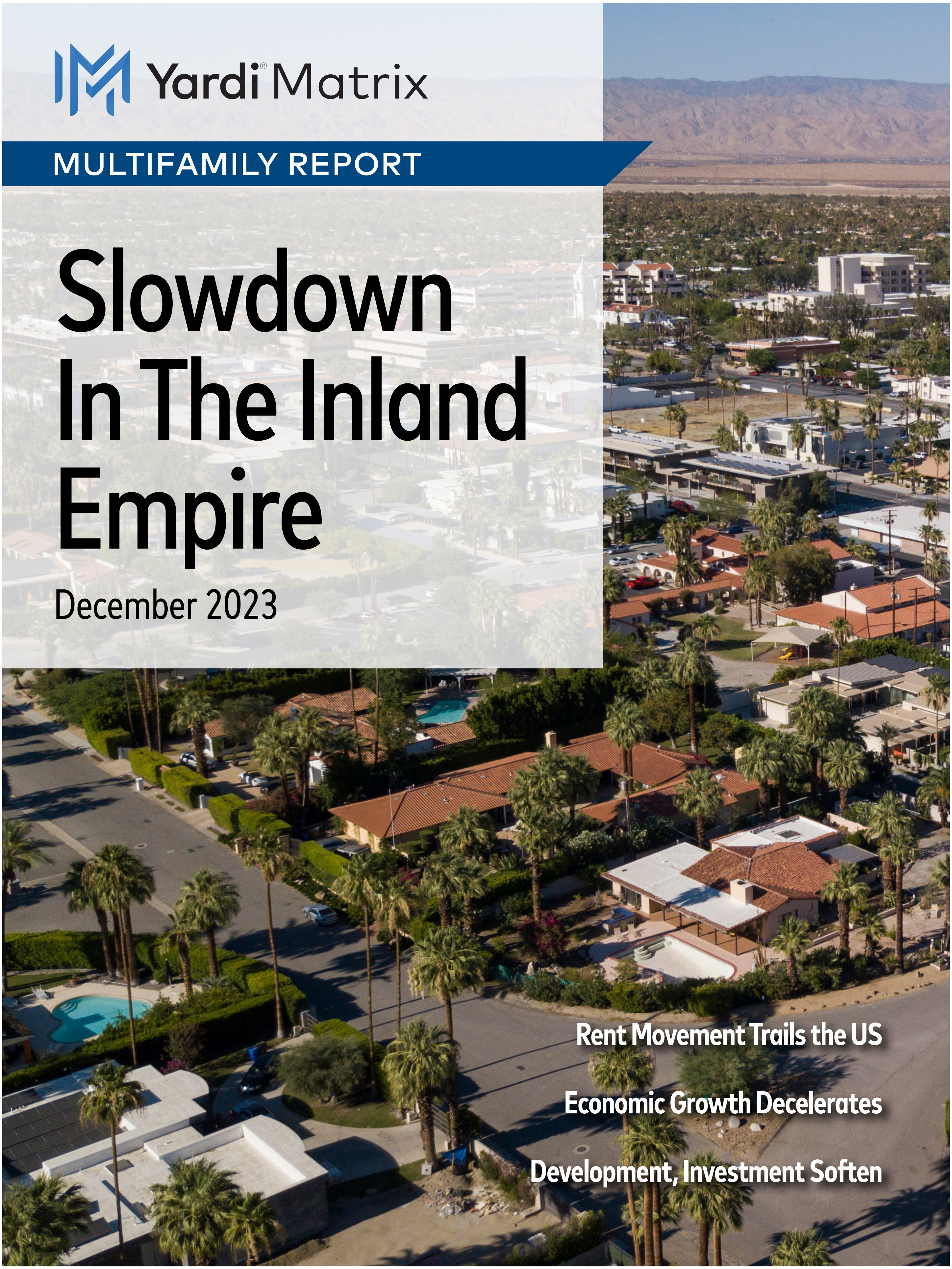
MULTIFAMILY REPORT

Slowdown In The Inland Empire

December 2023



Rent Movement Trails the US

Economic Growth Decelerates

Development, Investment Soften

INLAND EMPIRE MULTIFAMILY

Yardi Matrix

Volatility, Slowdown Press Fundamentals

The Inland Empire's multifamily market entered the fourth quarter of 2023 during a challenging period, with rent movement turning negative, employment growth softening considerably and investment and supply still down. Yet rates decreased just 0.2% on a trailing three-month basis, to $2,113, while the U.S. figure slid 0.1%, to $1,718 through October. The metro's occupancy fell 110 basis points in the 12 months ending in September, to 95.3%.

Inland Empire unemployment stood at 4.9% in September, according to data from the Bureau of Labor Statistics. The rate was 50 basis points higher than the January figure, trailing the U.S. (3.8%) and right behind California (4.7%). Meanwhile, in the 12 months ending in August, the area added 24,400 positions for a 0.8% expansion, heavily lagging the 2.5% national average. Additionally, four sectors lost 8,500 jobs combined, with trade, transportation and utilities, a local staple, accounting for roughly two-thirds of that. Job growth was primarily sustained by the education and health services (12,800 jobs) and government (7,500 jobs) sectors.

Development softened, with 571 units delivered in 2023 through October and an additional 6,963 units under construction. The volume of new projects decreased by 7.1% year-over-year but remained steady. Investment activity amounted to just $414 million during the year's first 10 months, for a price per unit that declined 14.5% year-to-date, to $260,953 as of October.

Market Analysis | December 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 Hills of Corona

City: Corona, Calif.
Buyer: Afton Properties
Purchase Price: $71 MM
Price per Unit: $287,500

The Landing

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

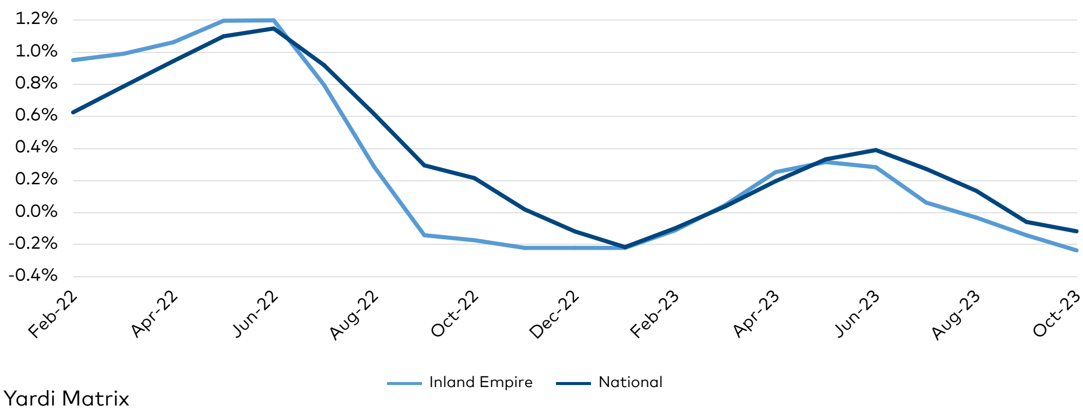
Sunnymead

City: Moreno Valley, Calif.
Buyer: Positive Investments
Purchase Price: $25 MM
Price per Unit: $208,750

RENT TRENDS

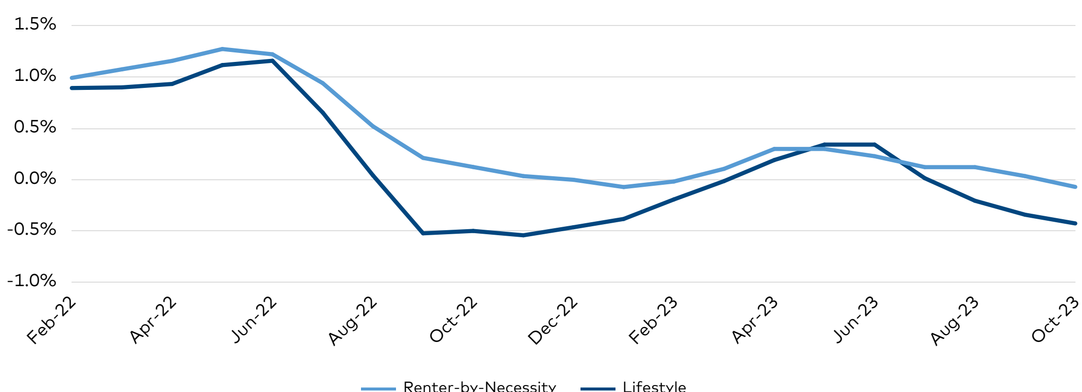
- Rents in the Inland Empire slid 0.2% on a trailing three-month (T3) basis through October, marking the fifth consecutive month behind the U.S. average, which was down 0.1%. Year-over-year, the gap was wider. Rates in San Bernardino and Riverside counties contracted 0.4%, to $2,113, while the U.S. figure increased 0.4%, to $1,718.
- Contractions were steeper in the Lifestyle segment, where rents decreased 0.4%, on a T3 basis through October, to $2,406. Meanwhile, working-class Renter-by-Necessity figures fell 0.1%, to $1,901, posting the second T3 slip into negative territory this year. Occupancy in stabilized properties mirrored softening demand, dropping 110 basis points in the 12 months ending in September. Despite the significant hit, the overall rate remained relatively healthy, at 95.3%. Unlike the rent dynamic, RBN occupancy dropped even further, down 120 basis points to 95.6%, while the Lifestyle segment slid 90 basis points, to 94.9%.
- Annual rent growth in October was negative in 13 of the 32 submarkets tracked by Yardi Matrix. Rates contracted in the three most expensive areas of the Inland Empire—Rancho Cucamonga (-1.8% to $2,493), Chino/Chino Hills (-2.1% to $2,391) and Murrieta/Temecula (-2.2% to $2,364).
- The Inland Empire's single-family rental segment surpassed multifamily's performance, with rents up 3.9% year-over-year as of October 2023, to $2,949. Meanwhile, occupancy was down just 20 basis points in 12 months, to 96.8% as of September.

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

- Employment rose just 0.8%, or 24,400 net jobs, in the 12 months ending in August, marking the third consecutive month below the 1.0% threshold, and well behind the 2.5% U.S. average. Meanwhile, the jobless rate stood at 4.9% in September, a 40-basis-point month-over-month improvement, but 50 basis points higher than at the start of the year. The Inland Empire's unemployment rate trailed the U.S. (3.8%) and California (4.7%).

- Education and health services (12,800 jobs) and government (7,500 jobs) led gains. Four sectors lost a combined 8,500 jobs in the 12 months ending in August. The area's largest sector—trade, transportation and utilities—which accounts for 27% of the entire workforce, shed the most positions (5,300).

- The Inland Empire's industrial market expanded substantially in the past decade, with deliveries significantly north of 200 million square feet since the start of 2013, according to Yardi Matrix data. The trend seems to have slowed down in 2023, when less than 10 million square feet in industrial constructions starts were recorded. In addition, imports into North America's largest port complex fell close to an almost three-year low. Even so, despite the overall industrial softening, the global Purchasing Managers' Index fell to a neutral 50.0% in October, a decrease of just 50 basis points from September.

Inland Empire Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	281	16.8%
90	Government	256	15.3%
15	Mining, Logging and Construction	124	7.4%
60	Professional and Business Services	182	10.9%
80	Other Services	50	3.0%
70	Leisure and Hospitality	179	10.7%
50	Information	10	0.6%
55	Financial Activities	45	2.7%
30	Manufacturing	97	5.8%
40	Trade, Transportation and Utilities	453	27.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Except for a one-time drop in 2020, the Inland Empire's demographic expansion was positive every year between the 2010 Census and 2021.

- During the period, the metro gained 410,000 residents, for a 9.7% expansion. That beat the U.S. rate, which clocked in at 7.3%.

Inland Empire vs. National Population

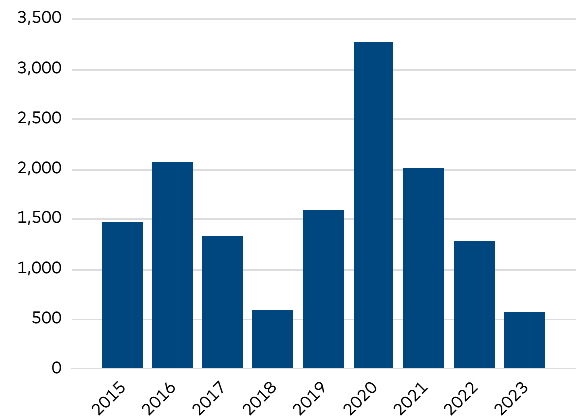
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Inland Empire	4,608,848	4,642,848	4,605,504	4,653,105

Source: U.S. Census

SUPPLY

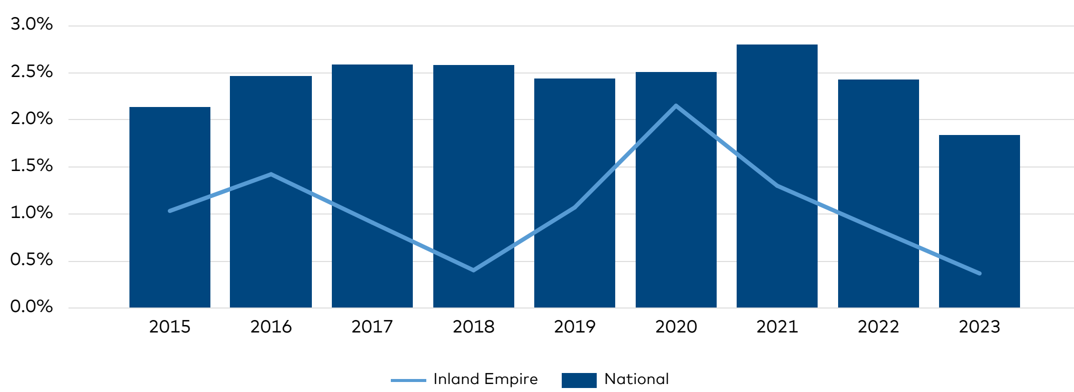
- Developers delivered just 571 units in 2023 through October, a mere 0.4% of the existing multifamily stock and well behind the 1.8% national rate. The newly added inventory consisted of 87% Lifestyle apartments and 13% units in fully affordable communities. Yardi Matrix estimates that the Inland Empire's inventory will expand by 1,978 units in 2023.
- The construction pipeline had 6,963 units underway as of October and another 38,800 in the planning and permitting stages. Developers maintained their focus on delivering upscale apartments, with 86% of the pipeline comprising Lifestyle units and 14% RBN. Furthermore, almost 13% of the units under construction were in fully affordable communities.
- Developers broke ground on 2,702 units across 12 properties in 2023 through October, a slight drop from the volume registered during the same interval of the previous year. In 2022, construction started on 2,909 units across 16 properties.
- Activity was uneven across the map, led by two submarkets with more than 1,000 units under construction each—Murrieta/Temecula (1,655 units) and Montclair/North Ontario (1,275 units). The areas also posted some of the highest average rents in the metro as of October.
- East Riverside gained 349 units in 2023 through October, in two Lifestyle communities. The Hawthorne (184 units) and Mark (165 units) were both built with aid from construction loans originated by City National Bank, in 2020 and 2019, respectively.

Inland Empire Completions (as of October 2023)



Source: Yardi Matrix

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

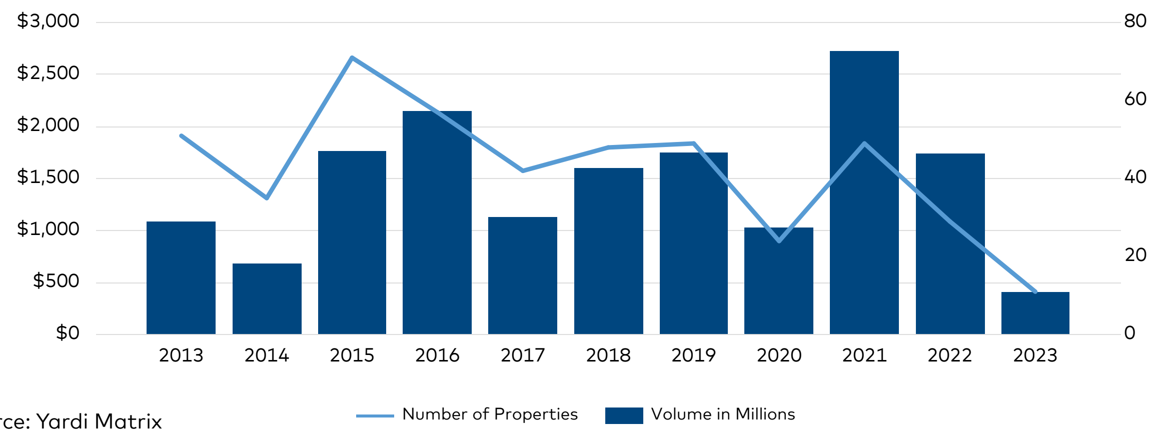


Source: Yardi Matrix

TRANSACTIONS

- Investors traded $414 million in multifamily assets in the Inland Empire during the first 10 months of the year, the lowest volume recorded in the past decade.
- The Inland Empire's price per unit slid a substantial 14.5% year-to-date, to $260,953, as of October. The decline was mainly caused by persisting nationwide woes that slowed sales activity, but also by the area's sales composition. Eight of the 11 transactions registered in 2023 through October involved value-add properties. Despite the decrease, the metro's per-unit price remained well above the $187,497 U.S. figure.
- The Paseos at Montclair North sold for the highest price in 2023 through October, acquired by Archway Equities from GH Palmer Associates for $150 million, or $389,610 per unit. The 385-unit property was completed in 2014 by Trammell Crow Residential, which sold it soon after for $108.5 million.

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



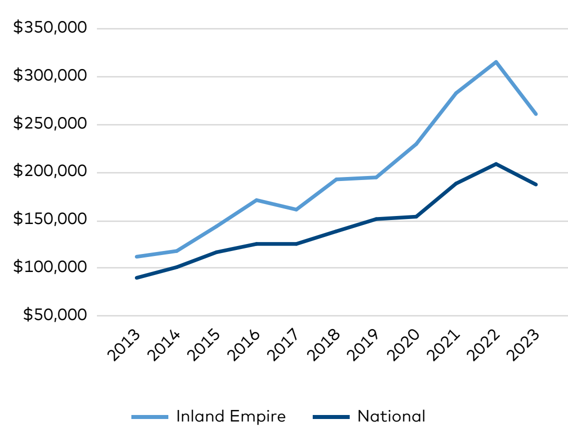
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Montclair/North Ontario	150
Colton/Grand Terrace	103
Corona	91
South Ontario	51
South San Bernadino	33
Moreno Valley	25
West Riverside	23

Source: Yardi Matrix
[1] From November 2022 to October 2023

Inland Empire vs. National Sales Price per Unit



Source: Yardi Matrix

It Will Get Worse Before It Gets Better, a California Property Manager Warns

By Diana Firtea

As California continues to battle high living costs, stubborn inflation and rising insurance expenses, providing sustainable and affordable housing solutions is proving very challenging. Kevin Grani, president of Sterling Asset Management Co., the property management arm of Community Housing Opportunities Corp. talks about the most pressing challenges he's facing today and the multifaceted dynamics of the affordable housing crisis in the state.

What are the top challenges California property managers have today?

The challenge today is simply the lack of attainable affordable housing, given how long it takes to build. We also often face challenges when trying to find people to manage sites—due to budget restrictions—which are all driven by the rents that are controlled by California state agencies.

What can be done to alleviate the crisis? Can affordable housing managers help in any way?

There are so many different components to resolving this crisis but what it comes down to is supply and demand, and simply building more. It's less of a management question and more about the development of housing and providing supportive services to residents, which is where management can help. Things like financial literacy, guidance with finding food and rental assistance. You start with basic needs and then move to financial literacy

and, eventually, self-sufficiency.

How can organizations such as CHOC maintain affordable rental rates when all costs rise, particularly in a supply-constrained market like California?

Frankly, it's incredibly difficult. Many in our industry are of the mind that it's not possible to keep rental rates lower as costs rise. As a property manager, CHOC does not set rental rates. The rates are set by state and federal agencies. Despite that, our hope is that we can develop more affordable housing to counteract this issue and, ideally, house as many people as we possibly can.

Could you share an example of an affordable housing property that has effectively navigated challenges, achieving positive outcomes for both residents and owner?

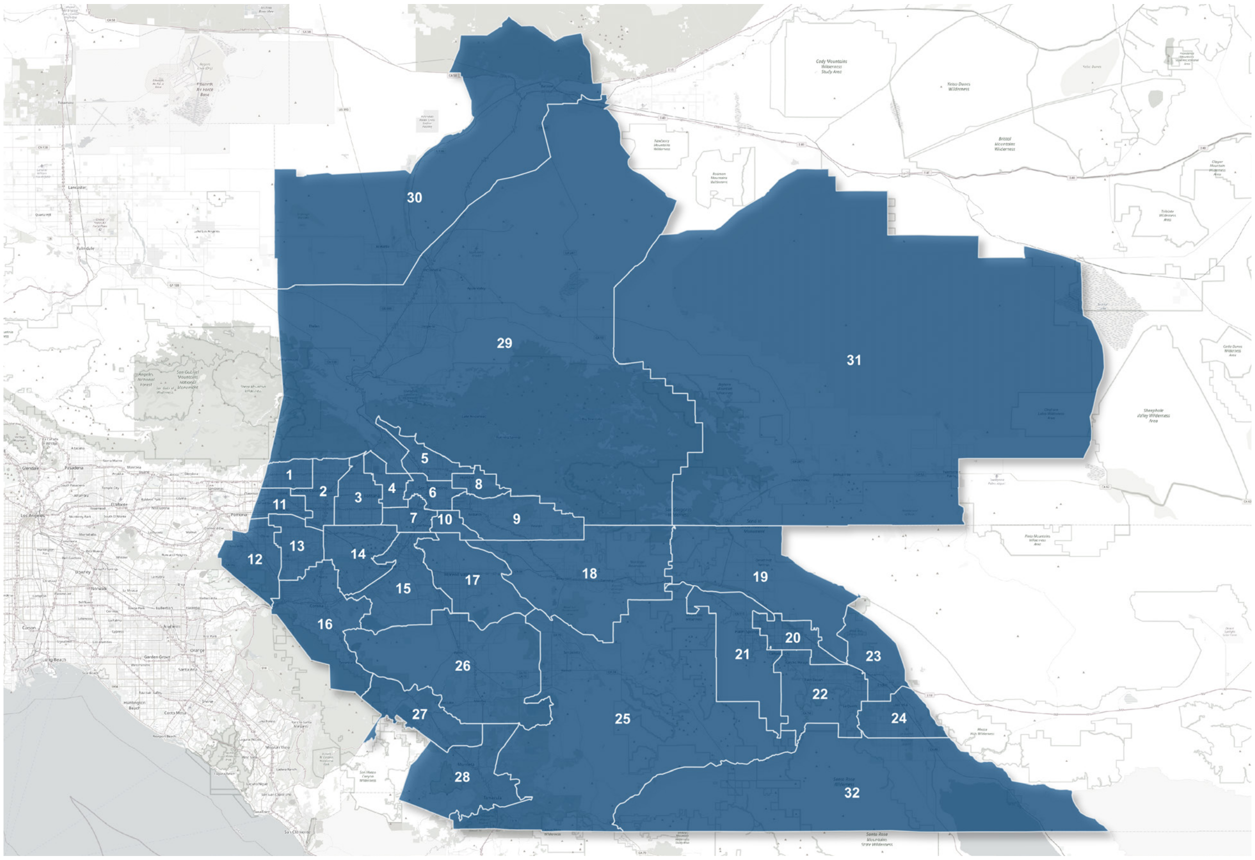
Our goal was to do just that with our soon-to-open community, Placita Dolores Huerta, which is located in the Coachella area of California. We took the property—which was older and in need of attention—demolished it, provided temporary housing for residents, and built a brand new property that will last for decades.

How do you expect the state's affordable housing crisis to evolve?

Unfortunately, as things stand, it will get worse before it gets better. It's essential that the state develops permanent sources of funding, in order to help organizations like ours develop and sustain multifamily affordable housing for as many people as possible.

(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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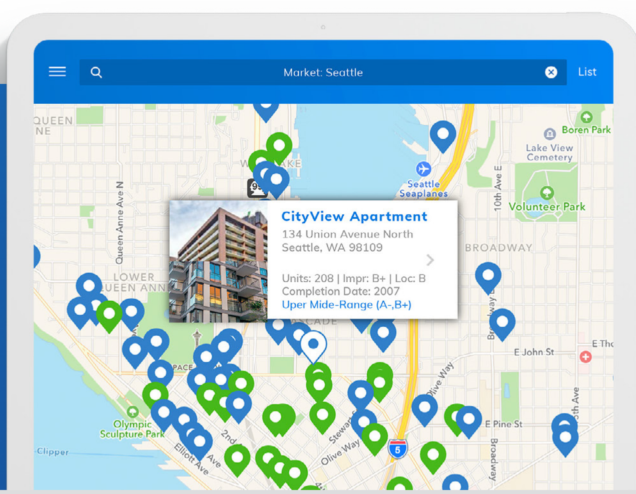
MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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