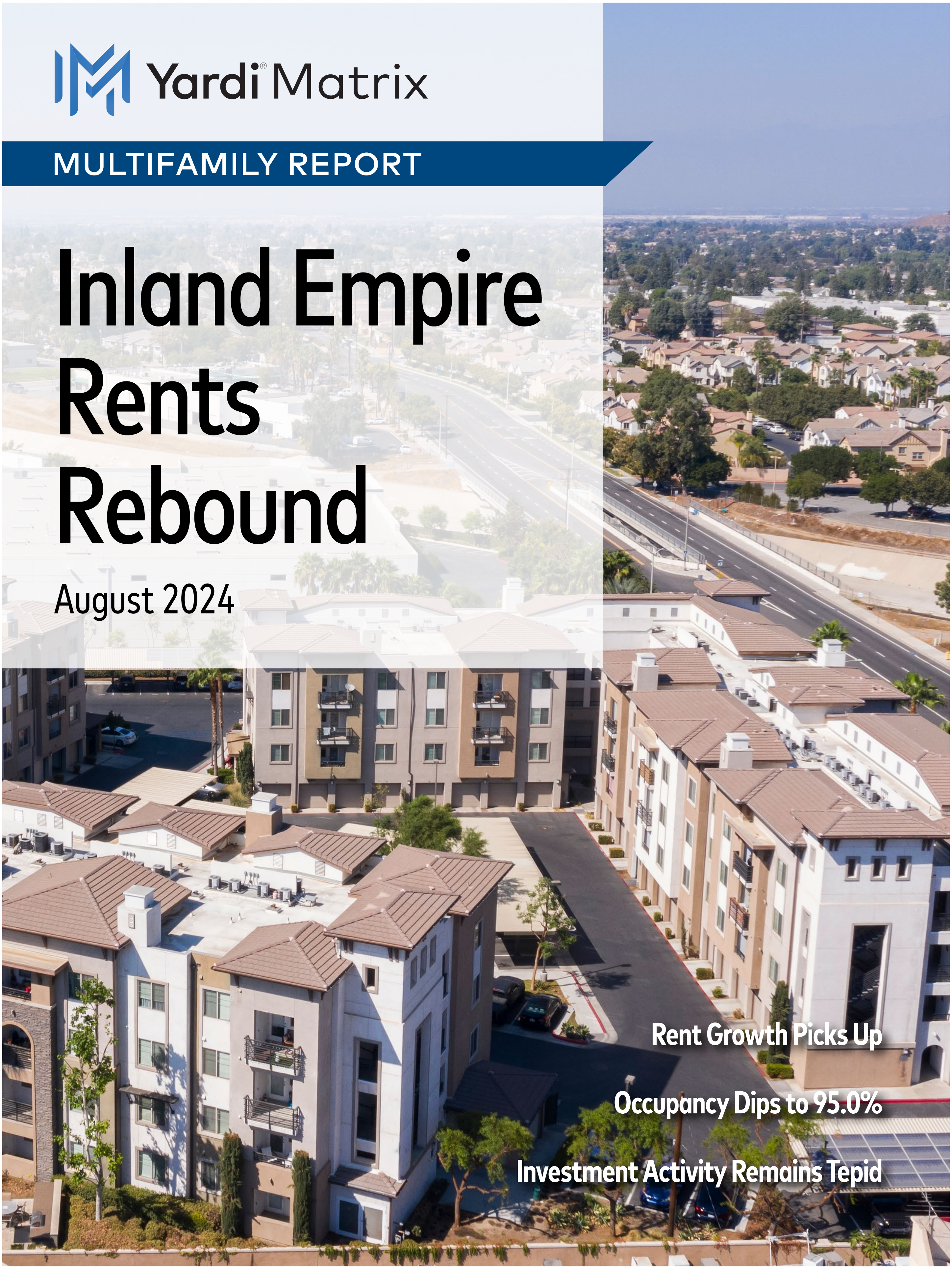
Yardi Matrix

MULTIFAMILY REPORT

Inland Empire Rents Rebound

August 2024



Rent Growth Picks Up

Occupancy Dips to 95.0%

Investment Activity Remains Tepid

INLAND EMPIRE MULTIFAMILY

Rent-Growth Rehab, As Occupancy Contracts

The Inland Empire's multifamily market rebounded in the second quarter of 2024, posting sustained rent growth, up 0.4% on a three-month basis through June, to $2,140. Meanwhile, the U.S. average advertised asking rent rose 0.3%, to $1,739. The occupancy rate in stabilized properties marked a 50-basis-point decline year-over-year through June but remained healthy at 95.0%, above the 94.5% U.S. figure.

In the 12 months ending in April, the Inland Empire's employment market expanded 1.4%, on par with the U.S. rate. This was the equivalent of 21,000 jobs. Three sectors lost 11,500 jobs combined—trade, transportation and utilities, leisure and hospitality and manufacturing. Meanwhile, gains were led by education and health services (18,700 jobs) and government (12,000 jobs). The unemployment rate stood at 4.3% in May, trailing the 4.0% U.S. rate and outperforming California's 5.2%, according to preliminary data from the Bureau of Labor Statistics. Notable projects underway in the metro include the Epicenter Master Plan and Eastvale's downtown and civic center.

During the first half of the year, developers delivered just 554 units and, as of June, the pipeline had 8,388 units under construction. Meanwhile, investment activity totaled just $177 million, for a price per unit that decreased 1.3% year-to-date, to $253,290, well above the $180,183 U.S. average.

Market Analysis | August 2024

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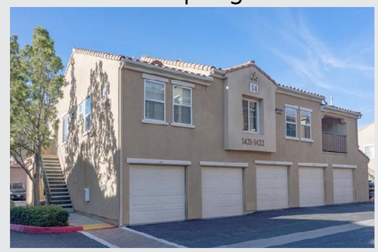
Recent Inland Empire Transactions

Bell Murrieta Spring



City: Murrieta, Calif.
Buyer: Bell Partners
Purchase Price: $147 MM
Price per Unit: $297,764

Christiansen

City: Indio, Calif.
Buyer: Positive Investments
Purchase Price: $17 MM
Price per Unit: $114,931

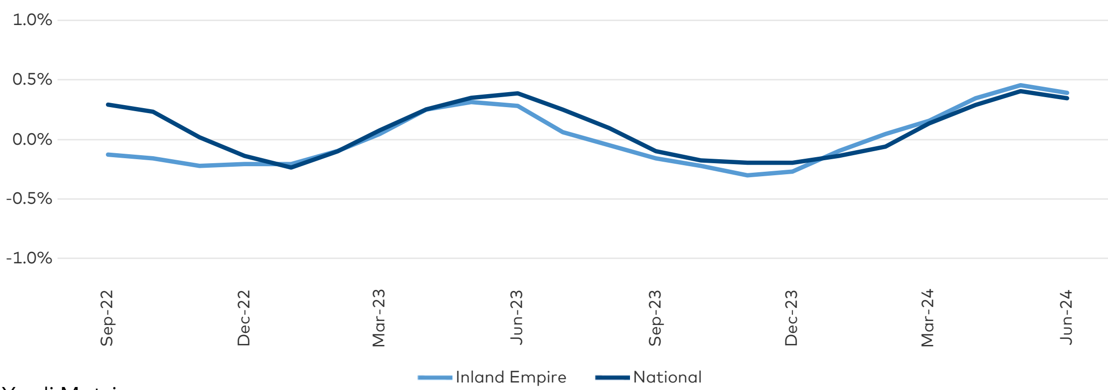
Ariana at El Paseo

City: Palm Desert, Calif.
Buyer: Investment Concepts
Purchase Price: $14 MM
Price per Unit: $222,222

RENT TRENDS

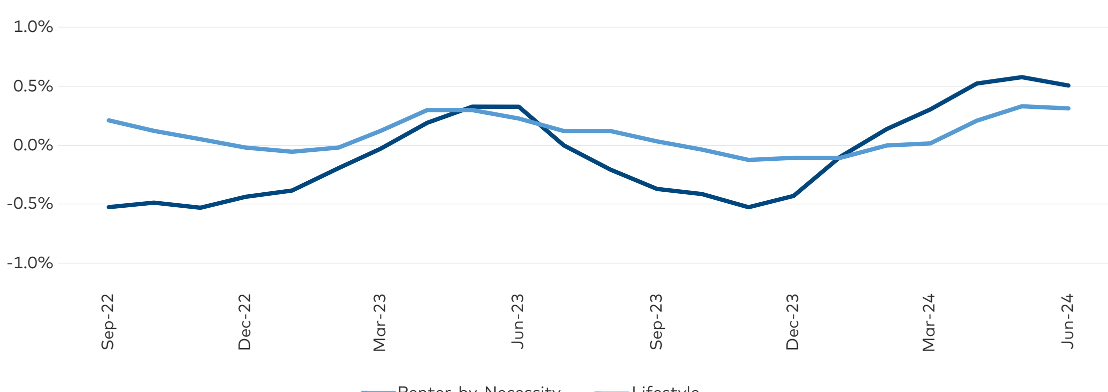
- The Inland Empire's average advertised asking rent rose 0.4% on a trailing three-month (T3) basis through June, to $2,140, surpassing the national rate by 10 basis points. On a T3 basis, rent gains in the metro outperformed the U.S. every month since February, but on a year-over-year basis, the metro's rent movement was 0.4%, while the national rate rose 0.6%, to $1,739.
- Rent growth was higher in the upscale Lifestyle segment, with average advertised asking rents up 0.5%, to $1,918, picking up pace in the second quarter of 2024. Meanwhile, Renter-by-Necessity figures rose 0.3%, to $2,450.
- The Inland Empire's occupancy rate in stabilized properties decreased 50 basis points year-over-year in May, to a still healthy 95.0%. The decline was fairly even across property segments: down 40 basis points in RBN, to 95.3%, and down 50 basis points in Lifestyle, to 94.5%, on par with the national occupancy rate.
- Of the 32 submarkets tracked by Yardi Matrix, 11 posted flat or negative rent movement, including in the Inland Empire's most expensive submarket, Rancho Cucamonga, which was down 1.8% year-over-year, to $2,522, as of June. Even so, the number of submarkets with the average advertised asking rent above the $2,000 threshold rose to 17, from 15 a year ago.
- The average advertised rent for single-family rentals in the metro increased 2.1% year-over-year in June, to $2,952. The sector's occupancy slid 1.0% year-over-year as of May, to 95.7%.

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 Inland Empire's job market has steadily been on a tightening trend for the first part of 2024, with the jobless rate marking a 120-basis-point improvement since January, to 4.3% in May, according to preliminary data from the BLS. The national unemployment rate stood at 4.0%, while California posted a 5.2% jobless figure. Among the state's major markets, the Inland Empire outperformed only Los Angeles (4.7%), trailing Sacramento (3.9%), San Diego (3.6%), San Francisco (3.5%) and San Jose (3.5%).

- In the 12 months ending in April, the Inland Empire's employment market added 21,000 net jobs, for a 1.4% expansion, on par with the U.S. rate. Three sectors lost jobs—trade, transportation and utilities (-4,300 jobs), leisure and hospitality (-3,800 jobs) and manufacturing (-3,400 jobs). Education and health services (18,700 jobs) and government (12,000 jobs) led gains.

- The Rancho Cucamonga City Council approved the Epicenter Master Plan, which will revitalize the area surrounding the Epicenter Sports Complex. The project will include the first high-speed rail station in the metro, connecting Rancho Cucamonga, the High Desert and Las Vegas. Another notable project will reshape 159 acres of agricultural land into Eastvale's downtown and civic center. It will include nearly 600,000 square feet of retail space, 2,500 new homes, a city hall, a police station, a library and an innovation center.

Inland Empire Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	302.9	17.9%
90	Government	274.7	16.2%
15	Mining, Logging and Construction	117.7	6.9%
80	Other Services	49.7	2.9%
50	Information	13	0.8%
55	Financial Activities	44.3	2.6%
60	Professional and Business Services	162.8	9.6%
30	Manufacturing	96.2	5.7%
70	Leisure and Hospitality	185.5	10.9%
40	Trade, Transportation and Utilities	447.7	26.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The Inland Empire gained 29,648 residents in 2022, up 0.6% and 20 basis points higher than the U.S. rate. In the previous year, the metro's population contracted 0.4%, but overall, between 2019 and 2022, the population rose 1.1%, 90 basis points below the national rate.

Inland Empire vs. National Population

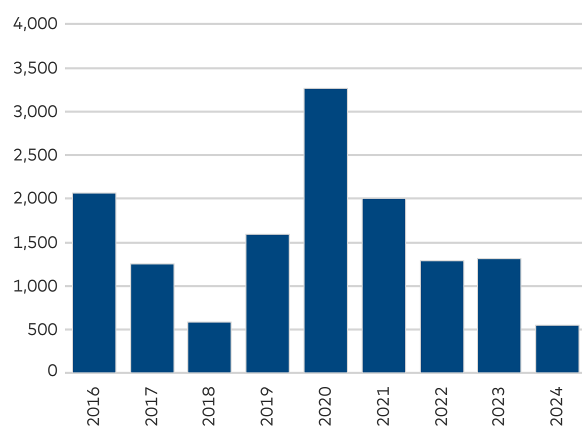
	2019	2020	2021	2022
National	324,697,795	326,569,308	329,725,481	331,097,593
Inland Empire	4,560,470	4,600,396	4,580,402	4,610,050

Source: U.S. Census

SUPPLY

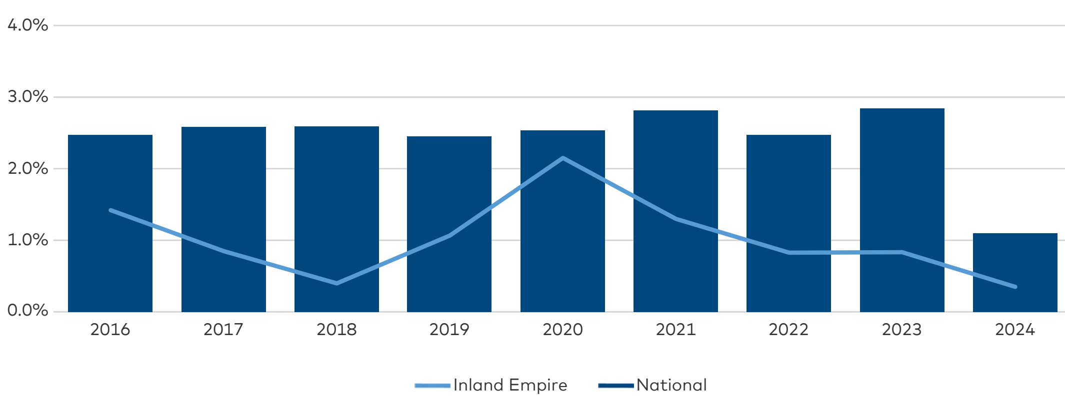
- Developers delivered 554 units in 2024 through June, accounting for 0.4% of existing stock, in line with the Inland Empire's tepid inventory expansion. Nationally, the rate stood at 1.1%. Other than one 131-unit Lifestyle property in Rancho Cucamonga, all completed projects were fully affordable.
- The development pipeline comprised 8,388 units under construction and 39,000 in the planning and permitting stages. The bulk of properties under construction consisted of Lifestyle apartments (82.4%) and the remaining 17.6% were units in fully affordable communities. There were no RBN properties underway during the period.
- For construction starts, the metro mirrors the national slowdown, as 1,014 units across six properties broke ground through June. During the same interval last year, developers had started construction on 1,764 units across eight properties.
- Murietta/Temecula (2,183 units) and Montclair/North Ontario (1,469 units) had the largest pipelines as of June. Overall, developers were active in 15 of the 32 submarkets tracked by Yardi Matrix.
- The largest project delivered this year was the 131-unit Westbury. Owned by The Stratham Group, the property includes 1,500 square feet of retail space and was built using a $32 million construction loan originated by Zions Bank. The largest project under construction is GH Palmer Associates' Vineyards, a 925-unit community in Montclair/North Ontario that will include a 5,000-square-foot retail component. Completion is scheduled for December 2024.

Inland Empire Completions (as of June 2024)



Source: Yardi Matrix

Inland Empire vs. National Completions as a Percentage of Total Stock (as of June 2024)



Source: Yardi Matrix

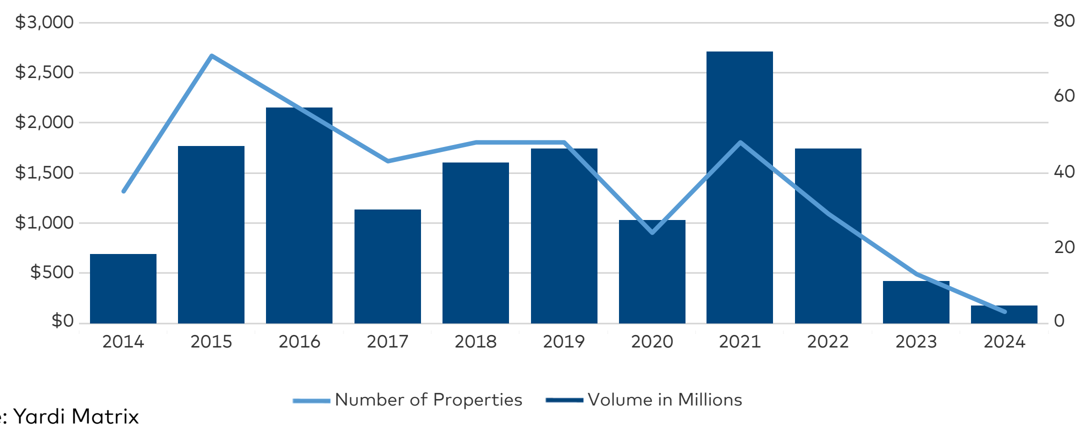
TRANSACTIONS

- Investment activity was limited in the Inland Empire, with only three transactions recorded during the first half of 2024, for a total of $177 million. Last year was the metro's weakest year for transaction volume over the last decade, with a total of just $422 million.

- With two out of the three sales involving RBN assets, the average price per unit stayed relatively flat, down just 1.3% this year, to $253,290. That was a 19.7% decrease from the $315,307 peak recorded in 2022. Still, property values in the metro continued to outperform national averages, which inched down 2.5%, to $180,183.

- Murrieta/Temecula led investment activity at the submarket level, thanks to a single sale. Bell Partners acquired Bell Murrieta Spring from RCMI. The 492-unit asset changed hands for $147 million, or $297,764 per unit, with aid from two loans totaling $88 million, originated by Berkadia Commercial Mortgage.

Inland Empire Sales Volume and Number of Properties Sold (as of June 2024)



Source: Yardi Matrix

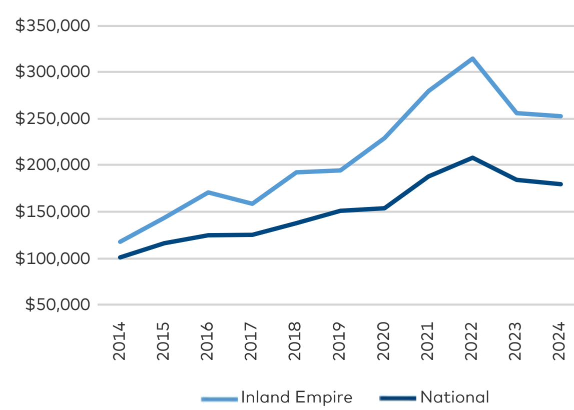
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Murrieta/Temecula	147
Corona	71
Moreno Valley	25
Coachella	17
Indio	17
Palm Desert/La Quinta	14
Victorville/Apple Valley/Big Bear	9

Source: Yardi Matrix

[1] From July 2023 to June 2024

Inland Empire vs. National Sales Price per Unit



Source: Yardi Matrix

Serving the Underserved: An Affordable Housing Provider's Take

By Diana Firtea

Despite being one of the most supply-constrained markets in the country, California presents significant opportunities to both build and preserve affordable housing. And provider Housing on Merit is leveraging all the resources available to step up to the task. CEO Jaymie Beckett talks about challenges and investment opportunities in the state, policies and advocacy efforts, and HOM's approaches to easing California's notorious affordable housing crisis.

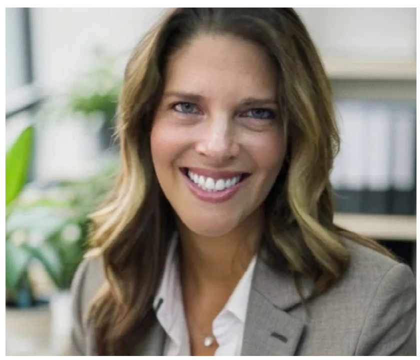
In today's economic environment, how difficult is it to stay active as an affordable housing developer in California?

While California can be a challenging affordable housing market due to the state's particular regulatory burdens and high costs, it remains one of the largest areas of growth for the company.

Recently, we have seen an influx of new and experienced developers navigating the affordable housing development process for the first time, incentivized by new state density bonuses and approval streamlining measures at the state and local level.

How do you get projects off the ground today?

Federal incentives, particularly the LIHTC program, serve as the cornerstone of our efforts. LIHTC not only supports the construction and revitalization of affordable rental housing but also attracts substantial private investment.



State incentives play an equally crucial role in our strategy. California's specific tax credits and housing trust funds, sourced from real estate transaction fees, offer additional financial support. We tirelessly advocate for the expansion and accessibility of these resources to ensure they cater to the diverse needs of California's communities.

What would work best in alleviating California's notorious affordable housing crisis, besides simply building more?

The scale of building and preservation of affordable housing needed requires us to not only scale our efforts with our current development partners, but also to continue thinking outside the box on welcoming more development partners into the affordable housing space. Policy can have a big and immediate impact on the development pipeline.

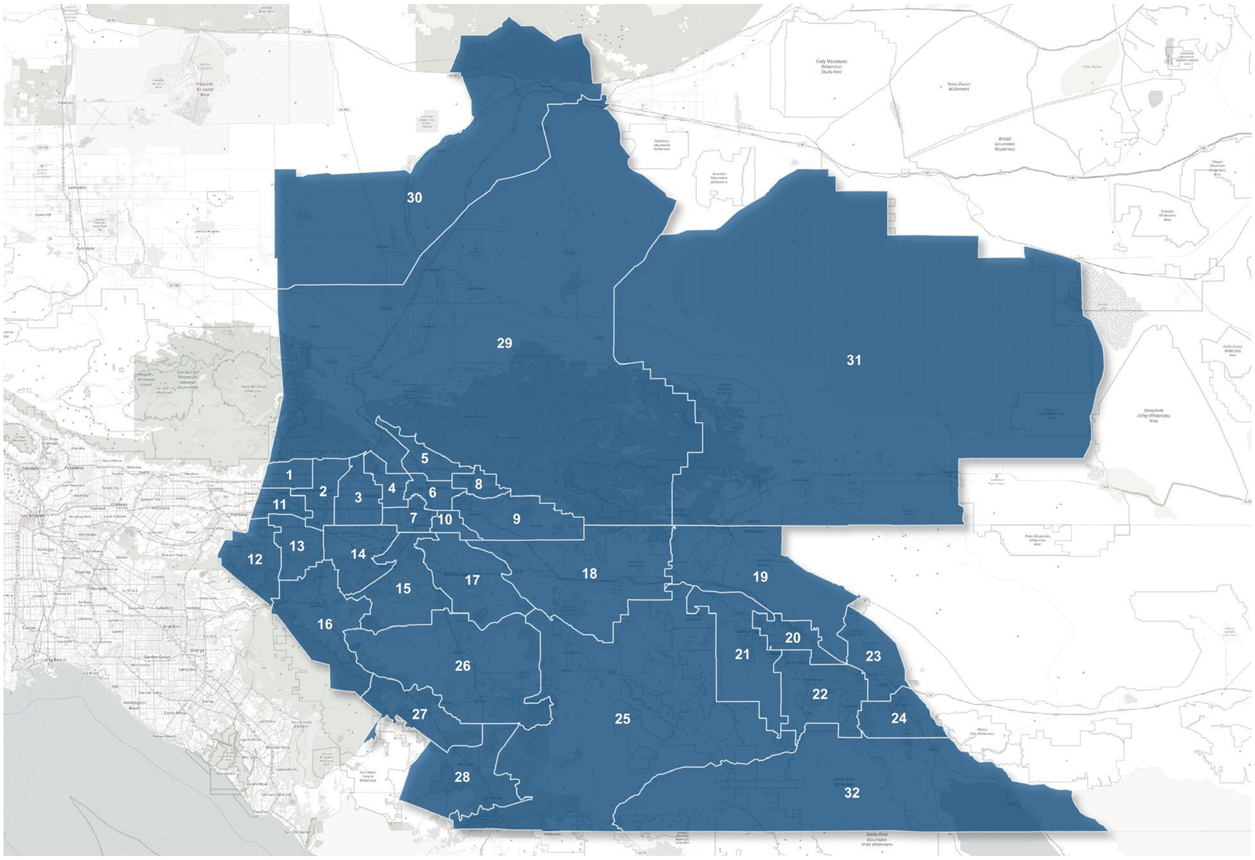
How do you expect this housing crisis to evolve?

The affordable housing crisis in California and nationwide is a significant challenge, but there's reason for optimism.

We see California adding innovative programs to help alleviate the affordable housing crisis. Homekey is a state program that represents a proactive approach to tackling the need for more housing by repurposing existing properties to provide stable housing and support services for those in need.

However, obstacles such as high land and construction costs remain, underscoring the ongoing need for collective action. While progress is being made, it's clear that sustained collaboration and innovative approaches are essentia.

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:

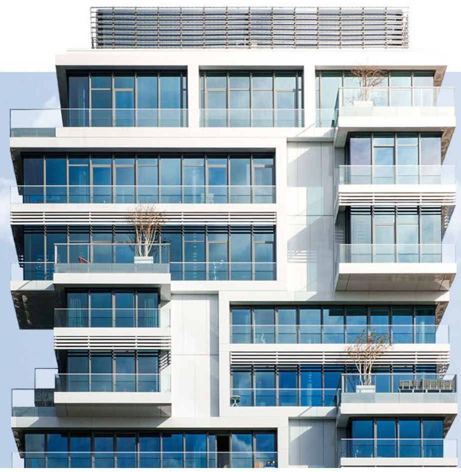
Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

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.

Yardi Matrix



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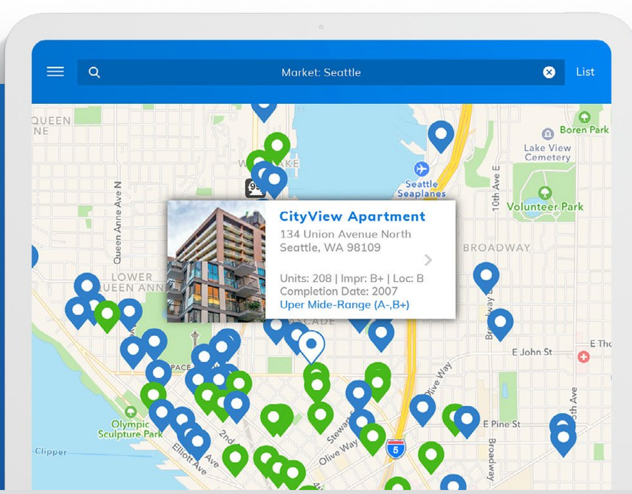
MULTIFAMILY KEY FEATURES

- 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 **22.3+ million units**, covering over **92% of the U.S. population.**

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