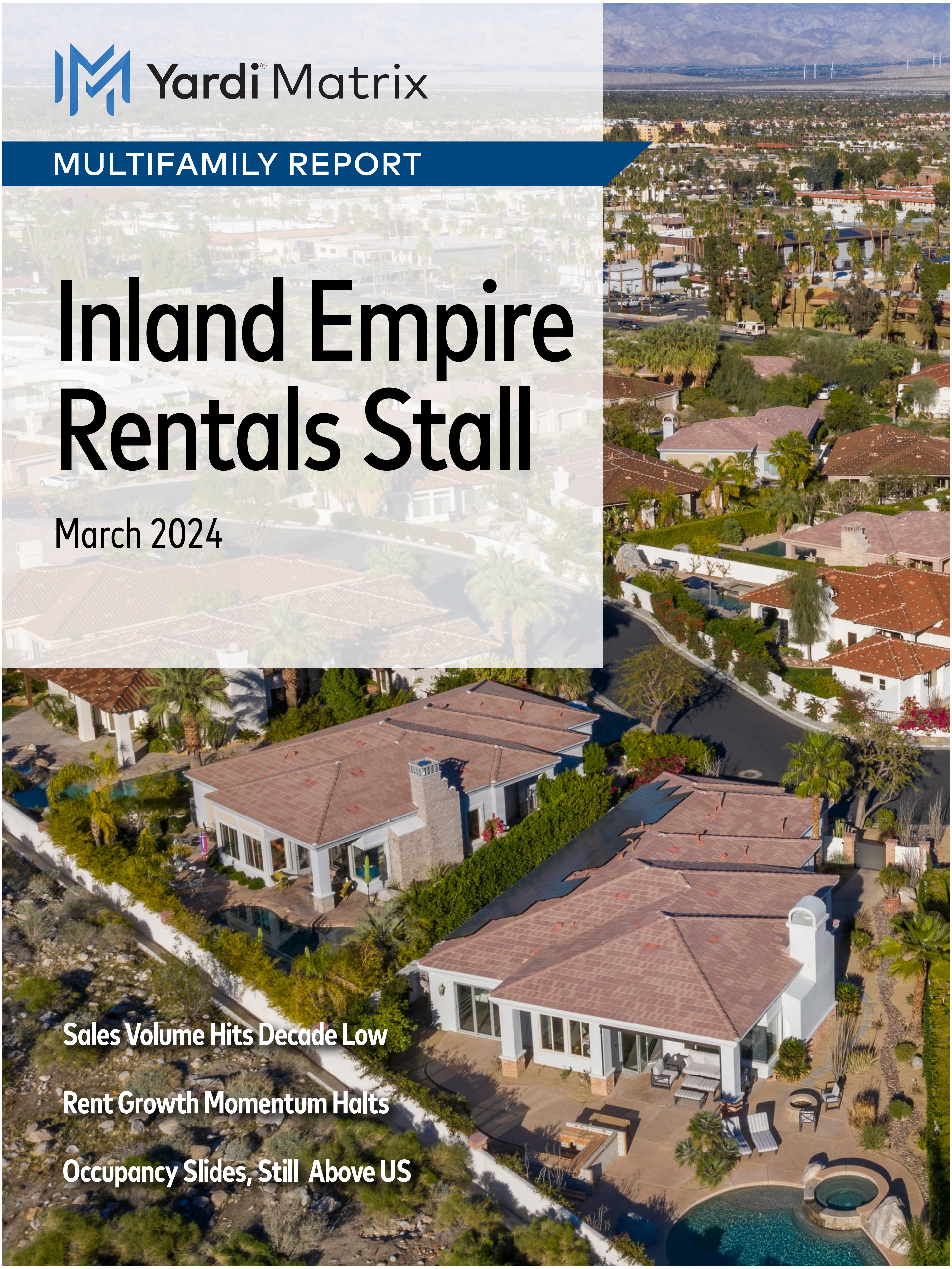
Yardi Matrix

MULTIFAMILY REPORT

Inland Empire Rentals Stall

March 2024



Sales Volume Hits Decade Low

Rent Growth Momentum Halts

Occupancy Slides, Still Above US

INLAND EMPIRE MULTIFAMILY

Yardi Matrix

Area Still SoCal's Affordability Hub

The Inland Empire, traditionally Southern California's most affordable major area, has seen its growth stunted as the overall multifamily market slowed down in 2023. Rent growth on a year-over-year basis was tepid, at 0.4% as of January, while the average plateaued on a trailing three-month basis. Despite that, rents actually fared better than the national rate, which saw its fourth consecutive month of -0.2% movement. Occupancy in the metro was down 110 basis points year-over-year, to 94.7%, still 10 basis points higher than the U.S. rate.

Anchored by a strong, albeit slowing, industrial sector, the metro added 30,000 jobs in the 12 months ending in November. The employment growth rate was 1.3%, trailing the U.S. by 90 basis points. Despite recording a 0.6% contraction, the trade, transportation and utilities sector is still the area's economic cornerstone, accounting for more than a quarter of all nonfarm employment in the two counties. Short- and medium-term prospects remain positive, with an industrial pipeline of more than 10 million square feet and infrastructure projects such as the Ontario Airport Tunnel poised to keep the sector going.

Notoriously slow to add inventory, the Inland Empire had 7,228 units underway as of January, with another 39,000 in the prospective and planning phases. On the sales front, the market had its slowest year in more than a decade, with $422 million in assets trading.

Market Analysis | March 2024

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On the cover: Photo by MattGush/iStockphoto.com

Recent Inland Empire Transactions

The Hills of Corona

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

Sunnymead

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

Orchard Villas

City: Coachella, Calif.
Buyer: Positive Investments
Purchase Price: $17 MM
Price per Unit: $107,792

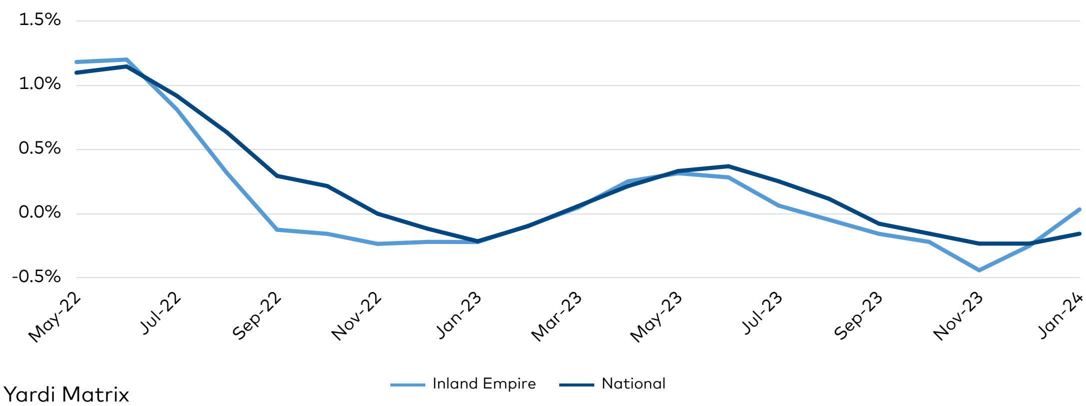
Northport

City: Victorville, Calif.
Buyer: Housing Authority of the County of San Bernardino
Purchase Price: $9 MM
Price per Unit: $141,667

RENT TRENDS

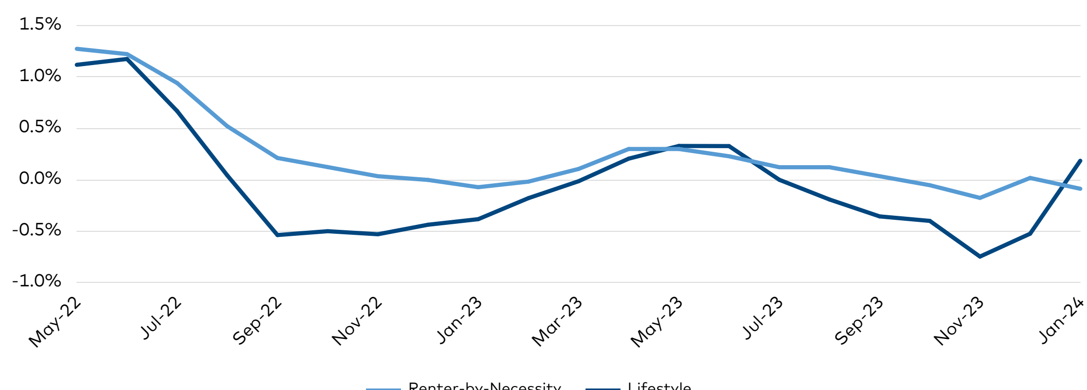
- Inland Empire rents plateaued on a trailing three-month basis as of January, while the U.S. saw its fourth consecutive month at -0.2%. The average reached $2,116, well above the $1,710 U.S. figure. Despite the $400 difference, the Inland Empire remains affordable by Southern California standards, as Orange County ($2,761), San Diego ($2,685) and Los Angeles ($2,572) were all significantly higher.
- Although the upscale Lifestyle segment saw rents move up 0.2% on a T3 basis as of January, the 10-basis-point drop in the working-class Renter-by-Necessity average evened out the overall figure.
- The overall occupancy rate in stabilized assets in the Inland Empire stood at 94.7% as of January, a 110-basis-point slide year-over-year. Lifestyle occupancy clocked in at 94.4%, down 100 basis points year-over-year. Meanwhile, RBN occupancy rates were down 120 basis points, to 94.9%.
- Of the 32 submarkets tracked by Yardi Matrix, 20 saw some rent improvement on a year-over-year basis, two were flat and the remaining nine saw declines. Loma Linda led rent growth, at 6.5%. Thousand Palms/Cathedral City (5.5%), Rialto (4.1%), Fontana (4.0%) and Colton/Grand Terrace (4.0%) followed.
- In the single-family rental segment, overall average rents were up 4.2% year-over-year as of January, while average occupancy also rose 100 basis points during the same interval, to 97.8%.

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 added 30,000 jobs in the 12 months ending in November, for a 1.3% rate of employment growth, 90 basis points below the U.S. rate. Unemployment numbers paint a fairly similar picture, with the Riverside-San Bernardino-Ontario MSA at 5.1% as of the end of 2023, right in line with the state. Both trailed the national rate, which remained at a still strong 3.7%.

- Four of the 10 major employment sectors recorded job losses in the Inland Empire through the 12 months ending in November. The sector that powered growth was education and health services, which added 12,400 jobs. Government and construction followed closely behind, with a combined 20,500 jobs added by the two sectors.

- An 18% year-over-year uptick in cargo traffic as of January at the nearby ports of Los Angeles and Long Beach has continued to feed the metro's strong warehousing sector. Despite that improvement, trade, transportation and utilities, the metro's economic cornerstone lost 2,700 jobs, down 0.6% year-over-year as of November. However, continued development activity in the warehousing sector and ambitious infrastructure projects are expected to provide a boost. The Tunnel to Ontario Airport Project linking the Cucamonga Metrolink Station to ONT terminals is one such venture, which is intended to provide relief to a fast-growing commercial airport.

Inland Empire Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	285	16.6%
90	Government	266	15.5%
15	Mining, Logging and Construction	126	7.3%
60	Professional and Business Services	186	10.8%
80	Other Services	51	3.0%
70	Leisure and Hospitality	181	10.5%
50	Information	10	0.6%
30	Manufacturing	98	5.7%
55	Financial Activities	45	2.6%
40	Trade, Transportation and Utilities	472	27.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Bernardino and Riverside counties recorded a 0.6% demographic uptick in 2022, 20 basis points above the U.S. rate of population growth.

- The Inland Empire has oscillated since the pandemic, following a 40,000-resident increase in 2020 with a 20,000 correction in 2021.

Inland Empire vs. National Population

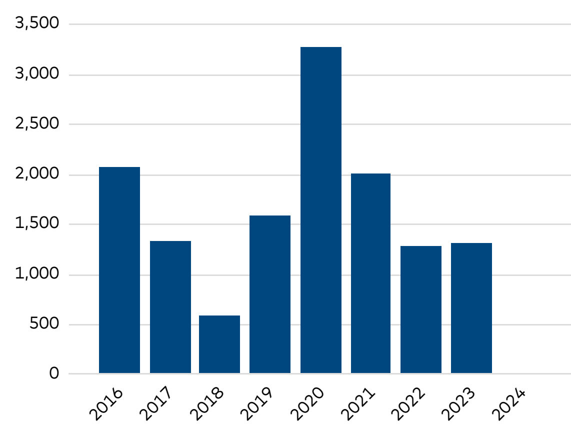
	2019	2020	2021	2022
National	324,697,795	326,569,308	329,725,481	331,097,593
Inland Empire	4,560,470	4,600,396	4,580,402	4,610,050

Source: U.S. Census

SUPPLY

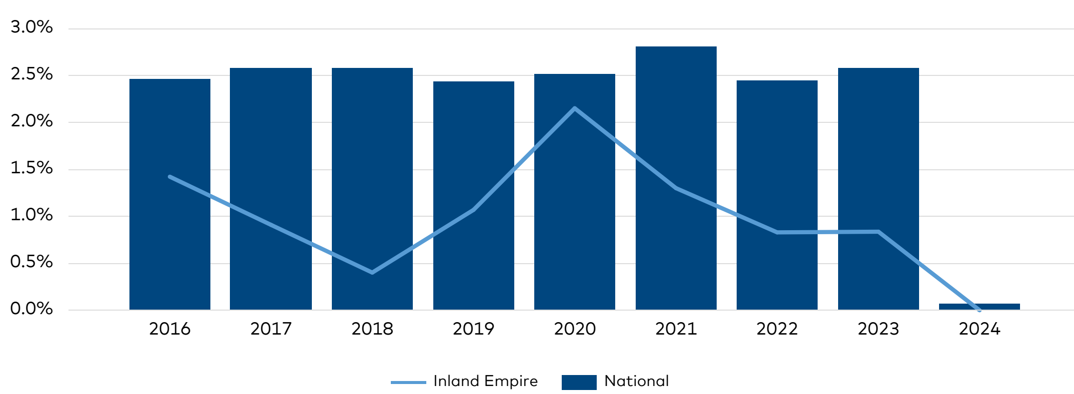
- The Inland Empire had 7,228 units under construction as of January, as rental development remains relatively limited across Riverside and San Bernardino counties.
- With another 39,000 units in the planning and permitting stages, there are signs that housing demand is still present in the metro. However, the bulk of these units, some 30,000 of them, were in the prospective stage and are likely to face significant headwinds as building costs and availability of labor remain limited.
- Of the units under construction, 18% were in fully affordable communities, while roughly 80% of the pipeline is being built in upscale Lifestyle properties. Meanwhile, communities targeting workforce housing in the Renter-by-Necessity segment were barely accounted for, with just two communities totaling fewer than 200 units underway as of January.
- Deliveries in 2023 totaled 1,309 units, or 0.8% of existing inventory. That's roughly 40 basis points lower than the previous five-year average and well below the 2.6% national rate.
- Two submarkets in the Inland Empire had multifamily pipelines that accounted for 40% of overall units underway. Murrieta/Temecula (1,655 units) and Montclair/North Ontario (1,275 units) were also the only submarkets with 1000-plus units under construction. Fontana (669 units) and East Riverside (642 units) rounded out the top four.
- At 925 units, Vineyards in Ontario is the largest property underway in the metro. GH Palmer Associates took a $239 million construction loan from U.S. Bank for the project.

Inland Empire Completions (as of January 2024)



Source: Yardi Matrix

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

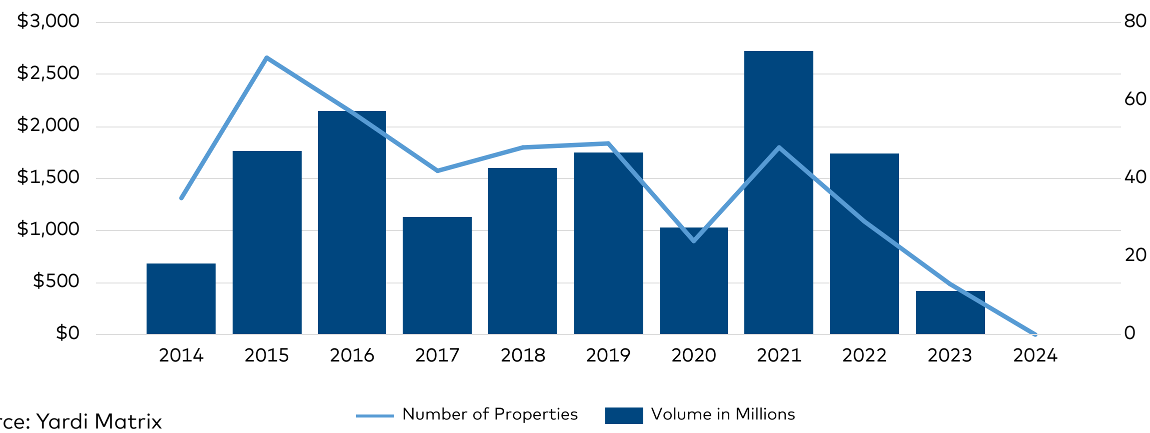


Source: Yardi Matrix

TRANSACTIONS

- Multifamily investment sales reached $422 million in 2023, as capital availability seriously dented activity in the Inland Empire. The overall sales volume was down 75% compared to 2022 levels, following the overall national trend.
- In 2023, the average per-unit price was also affected, ending the year at $256,602, down 18.6% from 2022 figures. The Inland Empire average was well ahead of the U.S. rate, however, which stood at $185,563 in 2023.
- In the 12 months ending in January, sales were higher in San Bernardino, as $266 million of the $422 million total recorded in the area traded in the county.
- Montclair/North Ontario led activity by submarket, on the back of a single sale. Archway Equities acquired The Paseos at Montclair North in May, for $150 million, or a per-unit price of $389,610. Corona ($91 million in total sales) and South Ontario ($51 million) rounded out the top three.

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



Source: Yardi Matrix

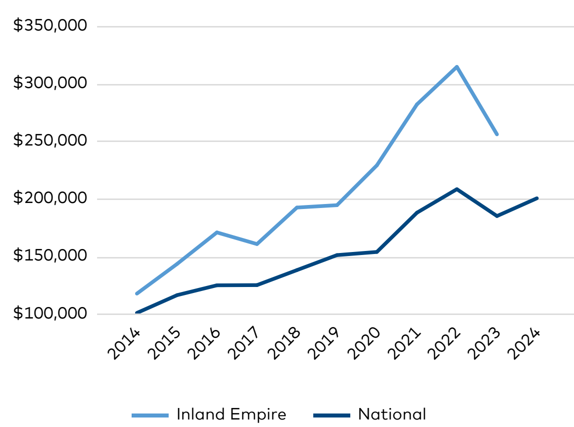
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Montclair/North Ontario	150
Corona	91
South Ontario	51
Moreno Valley	25
Victorville/Apple Valley/Big Bear	24
West Riverside	23
Rialto	21

Source: Yardi Matrix

[1] From February 2023 to January 2024

Inland Empire vs. National Sales Price per Unit



Source: Yardi Matrix

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MULTI-HOUSING NEWS

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 overcoming difficulties in one of the most supply-constrained affordable housing markets in the country.

What are the main challenges affordable housing property managers in California have?

The challenge today is simply the lack of attainable affordable housing, given how long it takes to build. The common challenges we've seen for years have been people losing their jobs, not having an income that stacks up against housing costs and, of course, the lack of subsidies for the properties. We also often face the challenge when trying to find people to manage sites—due to budget restrictions—which are all driven by the rents that are controlled by state agencies.

What can be done to alleviate the housing crisis?

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 and property managers maintain affordable rental rates when costs rise, particularly in a 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 details about one of your affordable housing properties that have effectively navigated current challenges?

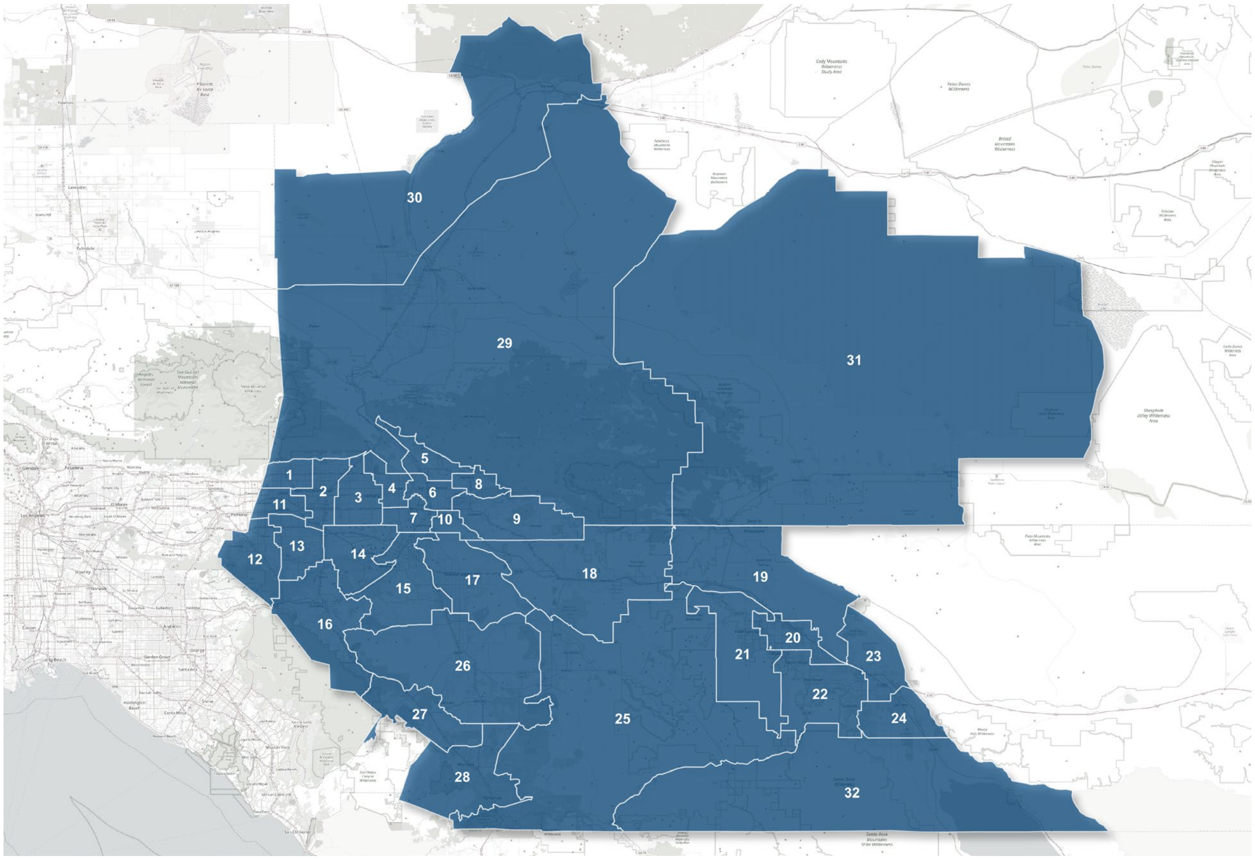
Our goal was to do just that with our soon-to-open community, Placita Dolores Huerta, which is located in the Coachella area of California. We took the property—which was older and in need of attention—demolished it, provided temporary housing for residents, and built a brand new property that will last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

Yardi Matrix

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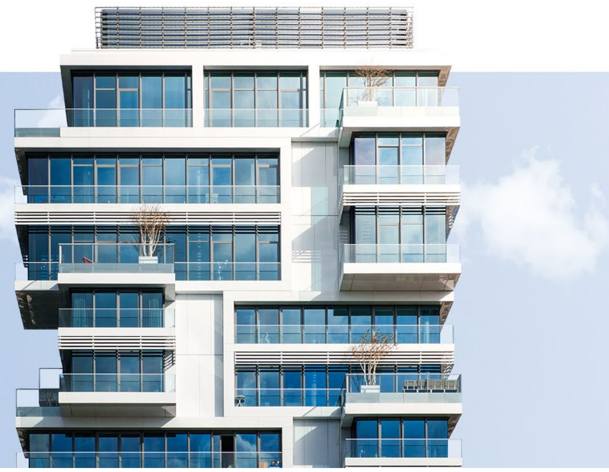
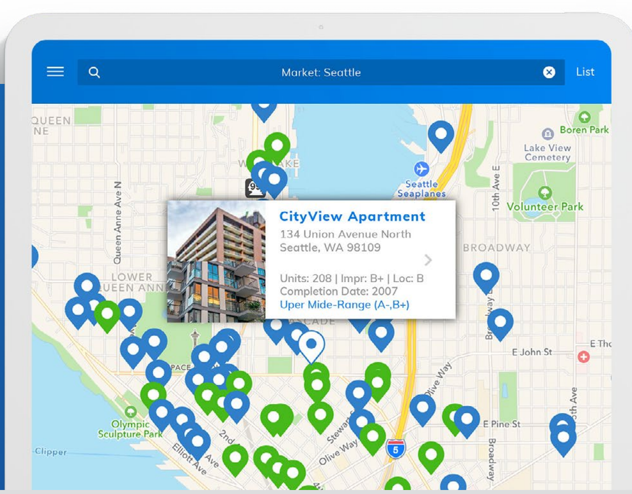


MULTIFAMILY KEY FEATURES

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

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