

▼ 2006 NAI Rank: 8, Down 7 Places. The Inland Empire remains a top performing market, but dropped in the index due to high development activity moderating vacancy improvement.

▲ Employment Forecast: Local employers will add 42,000 positions in 2006 after increasing payrolls by 35,000 in 2005. The leisure and hospitality sector will lead the way with 6,000 new jobs, representing growth of more than 5 percent. The professional and business services sector will also continue to expand, adding 5,000 positions over the course of the year.

▲ Construction Forecast: Developers will scale back construction from last year, as 3,200 units are expected to be delivered in 2006. Construction remains concentrated in the North Riverside and Rancho Cucamonga submarkets again this year.

▲ Vacancy Forecast: Strong renter demand and job growth will help absorb the high number of new units expected to be delivered in 2006. Vacancy will improve 30 basis points to 4 percent as a result.

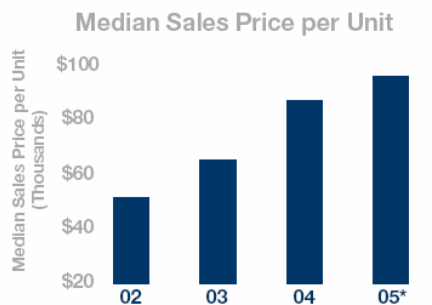
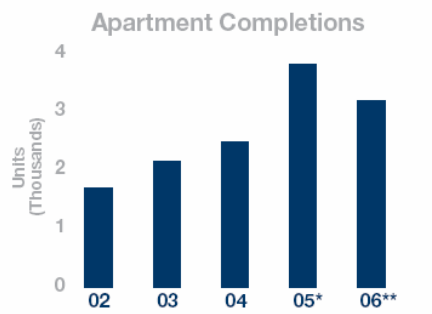
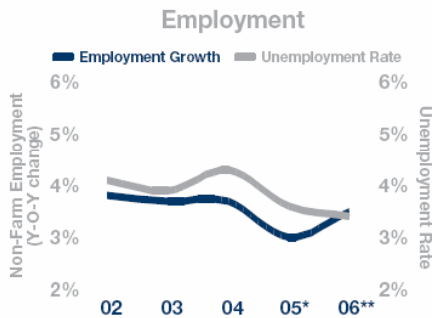
### Asking Rent and Vacancy Trends



### Inland Empire Apartment Market Operating in Equilibrium

Despite another year with elevated construction, market conditions in the Inland Empire will remain strong due to solid population gains and job growth. Apartment demand continues to be robust and is being supplemented by rising home prices. Affordability in the market has dropped below 25 percent for the first time, pricing many new residents out of the for-sale market. Occupancy is expected to firm in all but a few submarkets, including North Riverside and Palm Springs, where a large number of new units are coming online this year. The rise in vacancy is expected to be short lived, though, as new units in these areas are typically absorbed quickly. Areas of the metro that are expected to show the greatest improvement in vacancy, including the city of Riverside and the South Ontario/Chino submarket, will not add any units to inventory in 2006. Regardless of vacancy numbers, the high level of demand is allowing owners marketwide to raise rents and lower concessions at accelerated rates. Rent growth will approach 5 percent this year, led by large gains in the southern submarkets.

The investment market will remain highly competitive during 2006 as buyers continue to outnumber sellers. While transaction velocity may suffer, prices will continue to rise. The median price rose 10 percent during 2005 to \$96,000 per unit, and a similar gain is expected this year. Transaction activity has been concentrated in the east San Bernardino submarkets, where the median price increased 19 percent to \$81,000 per unit during 2005. Buyers are confident that values in the city will continue to rise given redevelopment efforts. This area has grown in popularity with private investors, who are able to find a plentiful supply of affordably priced apartments with upside potential.



\* Estimate \*\* Forecast

▲ Rent Forecast: High absorption rates, coupled with a growing population and low housing affordability, will allow owners to maintain aggressive rent increases in 2006. Average asking rents are expected to rise 5 percent to \$1,036 per month this year, while declining concessions push up effective rents by 6 percent to \$1,003 per month.

▲ Investment Forecast: Buyers are aggressively seeking apartment properties in the Inland Empire, with cap rates expected to fall below 5 percent. Investors have been particularly active in areas where future development and redevelopment efforts are expected to increase property values, such as the rapidly expanding Coachella Valley and the High Desert.