Northmarq

MARKET INSIGHTS

Vacancies inch lower, but deliveries poised to gain momentum

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	5,783
UNITS DELIVERED (YTD)	610

MARKET FUNDAMENTALS

VACANCY RATE	3.2%
YEAR-OVER-YEAR CHANGE	+10bps
ASKING RENTS	$1,757
YEAR-OVER-YEAR CHANGE	-2.9%

TRANSACTION ACTIVITY (YTD)

MEDIAN SALES PRICE PER UNIT	$222,200

Inland Empire Multifamily
1Q 2024

HIGHLIGHTS

- The Inland Empire multifamily market continued to perform, with vacancies low and the economy expanding. Deliveries of new units were modest in the first quarter but should gain momentum by the end of this year.
- After creeping higher in the second half of last year, vacancy improved in the first quarter. The rate declined by 20 basis points in the past three months to 3.2 percent. Year over year, the rate has ticked up by 10 basis points.
- Asking rents dipped 0.9 percent during the first quarter to $1,757 per month. Year over year, rents have fallen 2.9 percent.
- Multifamily investment activity has been slow in the past few quarters, but transactions are continuing at a fairly steady clip. Prices have inched lower and cap rates are higher on average. The median price in properties that have traded year to date is $222,200 per unit, while cap rates are averaging approximately 6 percent.

INLAND EMPIRE MULTIFAMILY MARKET OVERVIEW

Multifamily fundamentals in the Inland Empire have posted mostly steady results during the past several quarters, and property performance metrics in the first quarter were consistent with long-term trends. The market generally operates at or near equilibrium, with supply and demand closely correlated. During the first quarter, vacancies tightened slightly, following two consecutive quarterly increases in the second half of last year. Current vacancy levels are only minimally higher than one year ago. Rents, on the other hand, have trended lower in recent quarters, including a 0.9 percent decline at the start of this year. Rents surged in 2021 and 2022 and are now at levels only slightly higher than the year-end 2021 figure. Rents appear to be in a period of modest self-correction, but should trend higher in the coming quarters, buoyed by accelerating demand.

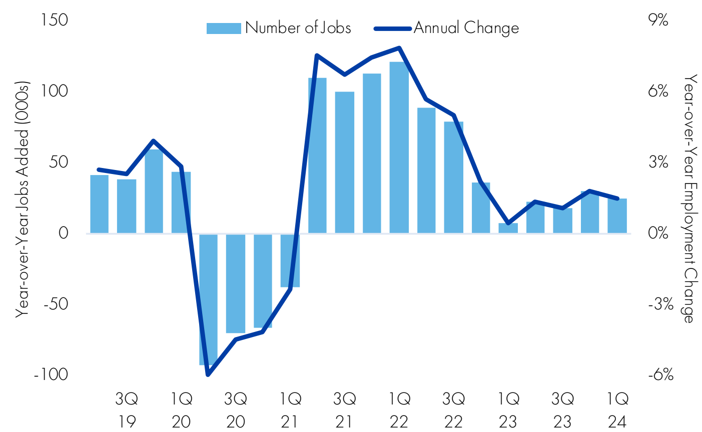
Total apartment sales in the Inland Empire at the start of this year closely tracked levels recorded during the second half of 2023. Activity levels are slow, but consistent, reflecting the overall health of property fundamentals, but also the more challenging financing environment. The market appears to have settled into a steady flow of deals; transaction counts in the first quarter were down about 25 percent from levels posted one year earlier, but similar to volumes from late in 2023. Transactions year to date have been mixed fairly evenly between Class B and Class C complexes, similar to the mix of properties that have changed hands in the past two years. While construction has ramped up in recent years, only about 10 percent of the properties that have been delivered since 2020 have been sold after being completed.

EMPLOYMENT

- Job growth in the Inland Empire continued through the opening months of the year. In the past 12 months, area employers expanded payrolls by 1.5 percent, with the addition of 24,800 jobs.
- With commercial and residential development continuing throughout the Inland Empire, employment in the construction sector has grown at an elevated rate. In the past 12 months, total construction employment has expanded by 6,400 workers, an increase of 5.8 percent.
- Job growth in the current cycle is increasingly concentrated in a handful of industries. The education and health services sector has accounted for more than half of the total jobs added in the region during the past 12 months. Employers in this sector added 18,700 workers to payrolls year over year.
- **FORECAST:** Payrolls in the Inland Empire are expected to grow gradually through the remainder of the year. Area employers are on pace to hire 20,000 new workers in 2024, an increase of 1.2 percent.

Area employers expanded payrolls by 1.5 percent.

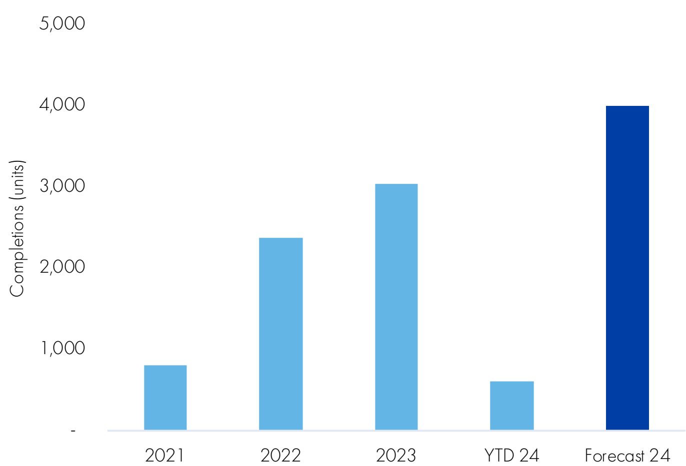
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Multifamily permitting slowed to start 2024.

DEVELOPMENT TRENDS



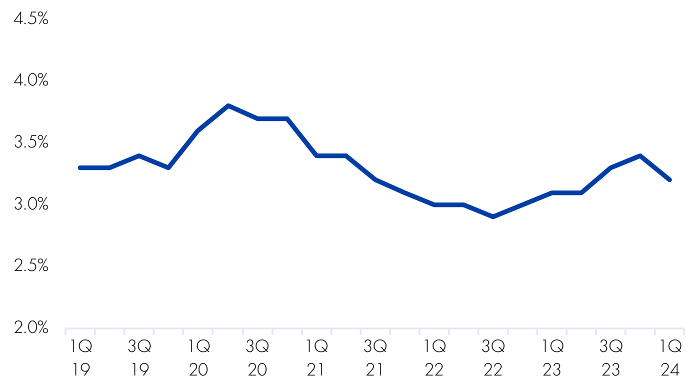
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- The pace of multifamily deliveries in the Inland Empire slowed in the first quarter following a year of active construction in 2023. In the past three months, developers have completed just 610 new units. More than 3,000 units came online in 2023.
- Projects totaling roughly 5,800 units are currently under construction throughout the Inland Empire, down 12 percent from the first quarter of 2023. Over half of all new construction in the region is being built in the Outer SW Riverside County/Temecula submarket; more than 3,000 units are under construction in the area. Approximately 2,300 units are scheduled to come online in the submarket this year, increasing the local inventory by more than 13 percent.
- Multifamily permitting slowed to start 2024, after peaking in 2023. Developers pulled permits for about 600 units during the first quarter, down 30 percent from the previous quarter.
- **FORECAST:** The pace of multifamily deliveries should pick up through the end of the year following modest levels in the opening three months of 2024. Developers are scheduled to complete projects totaling approximately 4,000 units this year, a cyclical high for the region.

Vacancies declined by 20 basis points in the first quarter.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

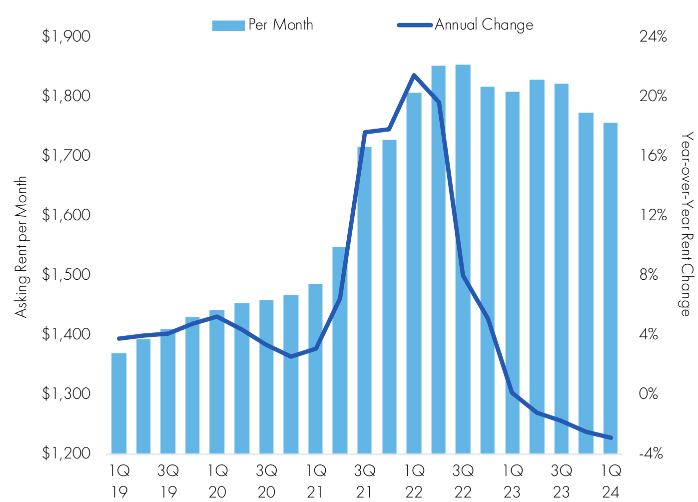
- Vacancy conditions in the Inland Empire improved during the first quarter after trending higher in the second half of 2023. Area vacancies declined by 20 basis points to 3.2 percent in the first quarter; year over year, the rate has ticked up 10 basis points.
- New construction has accelerated in recent years, but vacancy in Class A properties has remained low. In the past 12 months, vacancies in Class A units have decreased by 20 basis points to 3.2 percent.
- Demand for rental units has been on the rise to start 2024; during the first quarter, net absorption totaled nearly 400 units.
- **FORECAST:** Vacancy in the Inland Empire will likely trend somewhat higher through the remainder of the year, though increases will be modest. Vacancy is expected to rise 30 basis points in 2024, ending the year at 3.7 percent.

RENTS

- While vacancy levels tightened to start the year, rents in the Inland Empire declined by 0.9 percent during the first quarter to $1,757 per month.
- Year over year, area rents are down 2.9 percent, with much of the decline occurring in 2023. Local rents peaked in the second half of 2022, after surging by approximately 20 percent. With vacancies likely to remain fairly tight, rents are expected to stabilize in the second half.
- The Class A segment has recorded the most volatility in rental rates in recent years. The average Class A asking rent has dropped 3.6 percent in the past year, reaching $2,089 per month as of the first quarter. Class A rents first topped $2,000 per month in the second half of 2021, after previously averaging about $1,700 per month.
- **FORECAST:** After a soft start to the year, rents are expected to inch higher in the coming quarters. Asking rents are forecast to rise 1.2 percent in 2024 to $1,795 per month.

The average Class A asking rent reached $2,089 per month.

RENT TRENDS



Sources: Northmarq, REIS

MULTIFAMILY SALES

- Transaction activity in the Inland Empire has been lagging the region's long-term averages, but the pace has been fairly steady in recent quarters. The number of properties that sold in the first quarter matched the number of deals from the fourth quarter but was down about 25 percent from the first three months of 2023.
- Pricing trends have been inconsistent, with a wider per-unit range recorded year to date than in 2023. The median price for transactions that have closed to this point in the year is $222,200 per unit, about 8 percent lower than the 2023 median.
- After averaging approximately 5 percent at the end of last year, cap rates have pushed up to closer to 6 percent in 2024.

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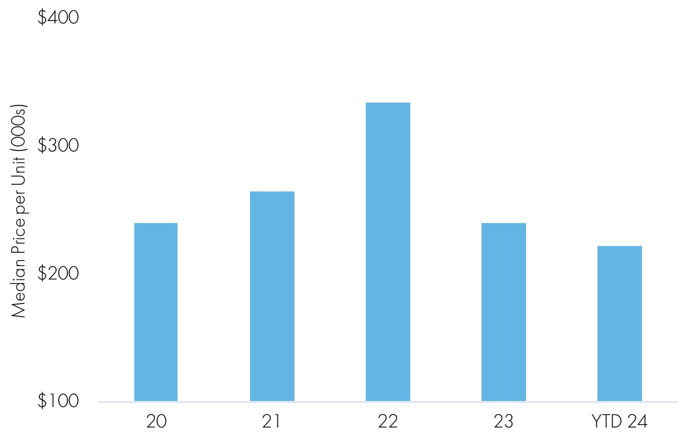
INVESTMENT TRENDS



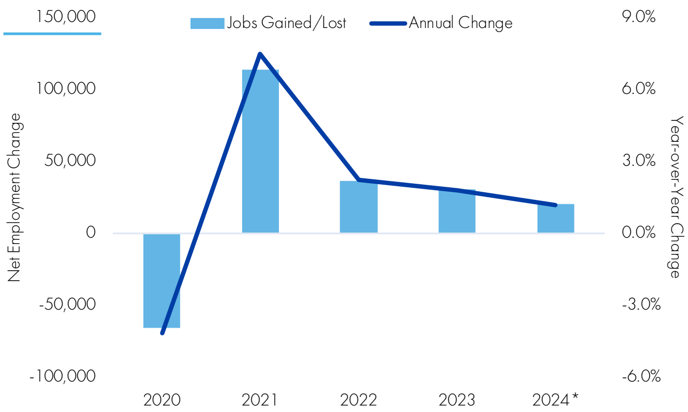
Sources: Northmarq, CoStar

LOOKING AHEAD

The remainder of this year is expected to be particularly active in both new apartment supply and renter demand for units. Development trends have been uneven in recent years, with permitting and starts accelerating before slowing. This year is on pace to mark a peak in annual deliveries, but by the end of the year, the construction pipeline will have thinned to its lowest level since 2021. Multifamily permitting has already begun to slow, a trend that is forecast to continue. The combined results of the surge in deliveries this year will be a modest rise in vacancies and limited rent growth, but the market's outlook brightens beginning in 2025. Over the longer-term, developers will have a hard time keeping pace with persistent renter demand, which should result in low vacancy rates and steady rent increases going forward.

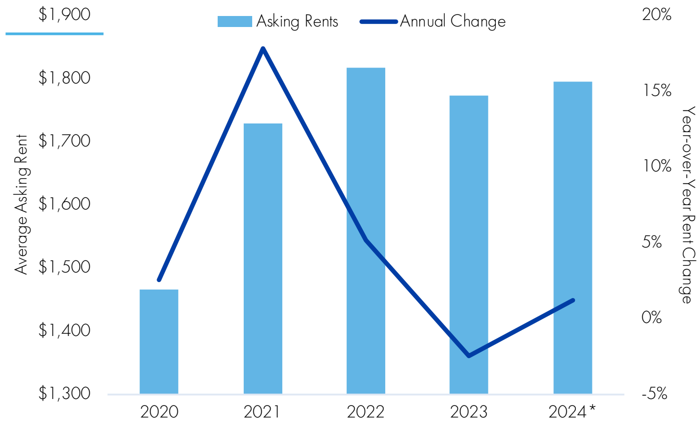
The investment market will likely regain some momentum in the coming quarters, with the recent rise in cap rates expected to make it easier for deals to get done. Last year, the strongest periods of transaction activity occurred in the second and third quarters, and preliminary indications suggest sales velocity should pick up in the middle part of this year as well. Assuming cap rates remain around 6 percent, buyers may find it easier for acquisitions to pencil, particularly if interest rates creep lower in the final few months of 2024. Longer term, investors are expected to be drawn to the Inland Empire's strong population growth outlook. The region is expected to grow at twice the rate of the rest of Southern California over the next 25 years, a period where nearly 1 million new residents will be added.

EMPLOYMENT FORECAST



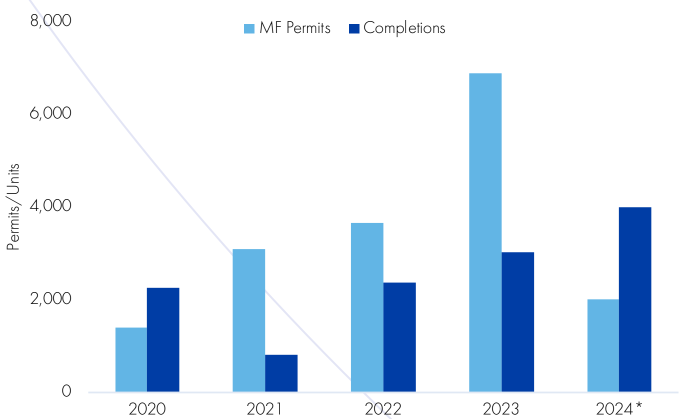
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



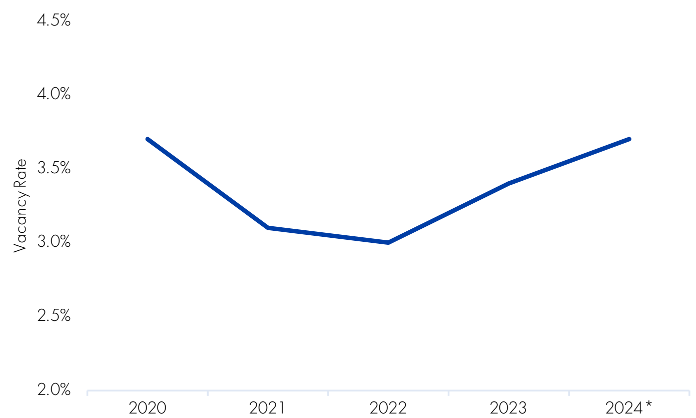
** Year End Forecast*
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



** Year End Forecast*
Sources: Northmarq, Census Bureau, CoStar

VACANCY FORECAST



** Year End Forecast*
Sources: Northmarq, REIS

FOR MORE INFORMATION,
PLEASE CONTACT:

SHANE SHAFER
Managing Director–Investment Sales
949.270.3690
sshafer@northmarq.com

PETER HAUSER
Senior Vice President–Investment Sales
714.356.5049
phauser@northmarq.com

MATT HAUSER
Senior Associate–Investment Sales
714.356.5049
mhauser@northmarq.com

JORDAN HAUSER
Associate–Investment Sales
949.270.3691
jhauser@northmarq.com

DAVID BLUM
Managing Director–Debt & Equity
949.717.5215
dblum@northmarq.com

JOE GIORDANI
Managing Director–Debt & Equity
949.717.5208
jgiordani@northmarq.com

PETE O'NEIL
Director of Research
602.508.2212
poneil@northmarq.com

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