

Inland Empire Multifamily

With Fundamentals Strong, Investment Activity Likely to Gain Momentum

Highlights

- > After a strong close to 2018, the multifamily market in the Inland Empire got off to a slower start during the first quarter of this year. Some of this is attributable to a more modest rate of employment expansion; the pace of job growth is expected to gain momentum going forward.
- > Apartment vacancy ticked up 20 basis points during the first quarter, reaching 3.3 percent. The rate is up just 10 basis points from one year ago.
- > Asking rents ticked up during the first quarter, rising to \$1,370 per month; rents are up 3.8 percent year over year.
- > Sales activity to start 2019 was slower than in recent periods and was concentrated in apartment complexes with fewer than 100 units. The median price dipped a modest 3 percent during the first quarter, while cap rates ticked up 20 basis points to the low 5 percent range.

Inland Empire Multifamily Market Overview

After several strong quarters in a row, the Inland Empire multifamily market recorded a bit of a lull in activity at the start of 2019. Employment growth slowed, particularly in blue-collar sectors such as construction and warehousing. Absorption of apartment units was positive but modest during the first quarter, lagging levels from the second half of 2018. On the supply side, deliveries of apartment complexes have been modest to this point, although the pace of development is picking up, and completions should accelerate in the coming quarters. The pace of demand growth should also gain momentum, keeping the market very close to equilibrium.

Market Indicators

Quarterly Changes	1Q/2019
Vacancy	↑
Rents	↑
Transaction Activity.....	↓
Price Per Unit.....	↓
Cap Rates.....	↑

Summary Statistics

Inland Empire Market

Vacancy Rate.....	3.3%
- Change from 1Q 2018 (bps).....	+10
Asking Rents (per month).....	\$1,370
- Change from 1Q 2018 (bps).....	+3.8%
Median Sales Price (per unit YTD).....	\$185,800
Average Cap Rate (YTD).....	5.1%

Inland Empire Multifamily Market Overview (cont.)

The Inland Empire's multifamily investment market is usually very steady, with a large inventory of complexes that provide for a consistent pace of transaction activity. During the first quarter of this year, sales velocity slowed and was largely concentrated in smaller complexes. These trends

are not expected to persist throughout the remainder of this year; a return to an environment where larger complexes trade with some frequency is likely. After a steep rise in 2018, prices have remained essentially flat so far this year, while cap rates have ticked higher to 5.1 percent on average.

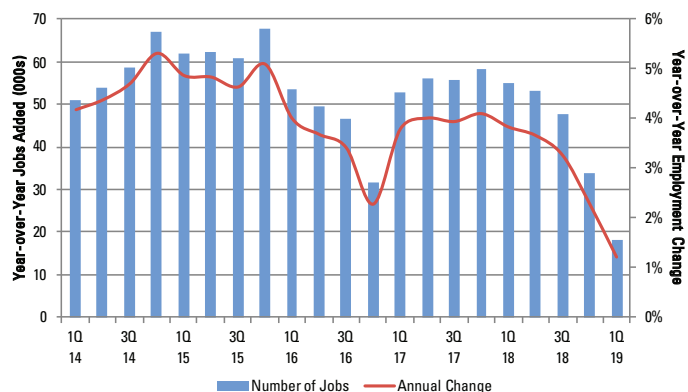
Submarket Statistics

Submarket Name	1Q 2019 Vacancy	1Q 2018 Vacancy	Annual Vacancy Change (BPS)	1Q 2019 Rents	1Q 2018 Rents
Fontana/Rialto	2.0%	2.3%	(30)	\$1,168	\$1,142
Upland	2.2%	2.3%	(10)	\$1,310	\$1,289
Indio/La Quinta/Coachella	2.5%	3.0%	(50)	\$1,113	\$1,060
Rancho Cucamonga	2.5%	2.4%	10	\$1,656	\$1,646
Victorville	2.5%	2.5%	-	\$1,054	\$1,010
Colton/Loma Linda	2.6%	3.1%	(50)	\$1,445	\$1,387
San Bernardino	2.6%	2.6%	-	\$1,014	\$992
Palm Springs/Palm Desert	3.0%	3.2%	(20)	\$1,102	\$1,038
Hemet	3.2%	3.2%	-	\$1,135	\$1,077
University City/Moreno Valley	3.3%	2.6%	70	\$1,433	\$1,363
Riverside/North Magnolia	3.5%	3.7%	(20)	\$1,272	\$1,234
North Ontario	3.7%	3.8%	(10)	\$1,488	\$1,445
Riverside County/Corona	4.3%	5.3%	(100)	\$1,552	\$1,512
SW Riverside County	4.7%	4.9%	(20)	\$1,496	\$1,432
Perris	5.0%	2.7%	230	\$1,346	\$1,225
South Ontario/Chino	6.9%	4.3%	260	\$1,743	\$1,675

Employment

- > The pace of employment growth in the Inland Empire has slowed in recent quarters. During the past 12 months, the local labor market added 18,000 net new jobs, a 1.2 percent increase. One year ago at this time, the pace of expansion was over 3.5 percent.
- > Education and health services is one sector that is showing no signs of slowing down. The sector added 9,600 jobs in the past 12 months, a 4 percent rate of growth.
- > Employment in the local transportation and warehousing sector has slowed after expanding at a pace of nearly 5 percent annually since 2012. During the 12-month period ending in the first quarter, transportation and warehousing expanded just 1.1 percent with the addition of 2,300 net new jobs.
- > **Forecast:** Recent volatility in the local labor market should be smoothed out in the coming quarters. The Inland Empire is forecast to add approximately 30,000 net new jobs in 2019, a 2 percent increase to payrolls.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

During the past 12 months, the local labor market added 18,000 net new jobs

Vacancy

- > The vacancy rate in the Inland Empire multifamily market ticked up 20 basis points during the first quarter, reaching 3.3 percent.
- > Multifamily vacancy has remained fairly tight over the past six quarters. The rate is up just 10 basis points from one year ago.
- > Vacancy in Class A apartments edged higher in the first quarter, rising 30 basis points to 4.5 percent. With construction expected to gain momentum in 2019, the Class A vacancy rate may continue to creep higher.
- > **Forecast:** With apartment deliveries expected to accelerate, vacancy is forecast to rise in 2019. The rate is on pace to end the year at 3.6 percent, up 50 basis points from the year-end 2018 figure.

Vacancy Trends



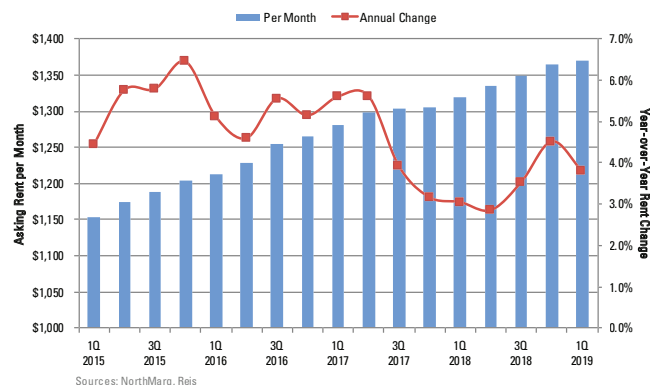
Sources: NorthMarq, Reis

Multifamily vacancy has remained fairly tight over the past six quarters

Rents

- > Rents in the Inland Empire inched higher in the first quarter, reaching \$1,370 per month. Asking rents have increased 3.8 percent in the past year; annual rent growth has averaged 4.7 percent since the beginning of 2015.
- > Class A asking rents reached a new threshold during the first quarter, rising to an average of \$1,600 per month. This reflects an annual increase of 3.4 percent in Class A properties.
- > Asking rents in the Rancho Cucamonga submarket are the highest in the Inland Empire at \$1,656 per month. Rent growth in the submarket has leveled off in the past year, rising less than 1 percent.
- > **Forecast:** Asking rents in the Inland Empire are forecast to rise approximately 3.5 percent in 2019, ending the year at over \$1,400 per month.

Rent Trends

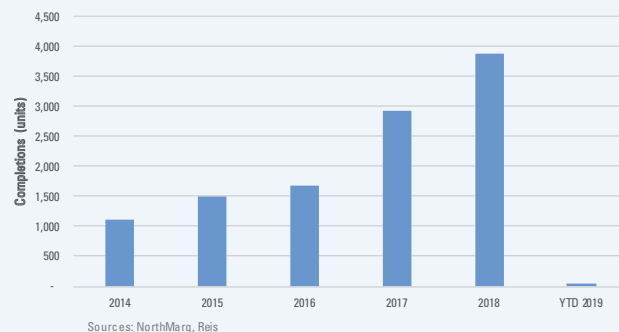


Asking rents have increased 3.8 percent in the past year

Development and Permitting

- > Approximately 325 apartment units were delivered during the first quarter and fewer than 700 units have come online in the past 12 months.
- > While the number of recent deliveries has been modest, the construction pipeline is filling. There are more than 3,500 units currently under construction, with projects scheduled to be completed in the next 24 months.
- > Permitting gained momentum in the first few months of the year. Permits for nearly 700 multifamily units were issued in the first quarter, up 13 percent from the same period one year earlier.
- > **Forecast:** Multifamily developers are forecast to deliver approximately 2,900 apartment units to the Inland Empire in 2019. This would mark the most deliveries in a single year since 2006.

Development Trends

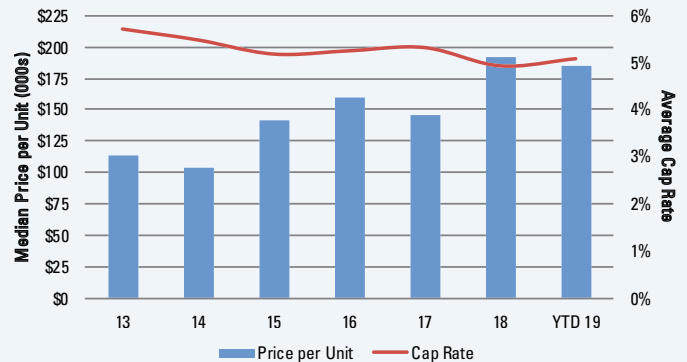


There are more than 3,500 units currently under construction

Multifamily Sales

- > Sales velocity slowed by more than 50 percent from the end of last year to the beginning of this year. Transaction activity was concentrated in smaller complexes; more than half of the sales were in complexes of fewer than 100 units.
- > Prices inched lower to start the year. The median price during the first quarter was \$185,800 per unit, 3 percent lower than the median price from 2018.
- > Cap rates averaged approximately 5.1 percent in the first quarter, 20 basis points higher than the 2018 average. Cap rates are expected to remain in a fairly tight range around 5 percent in the year ahead.

Investment Trends



Sources: NorthMarq, CoStar

Transaction activity during the first quarter was concentrated in smaller complexes

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

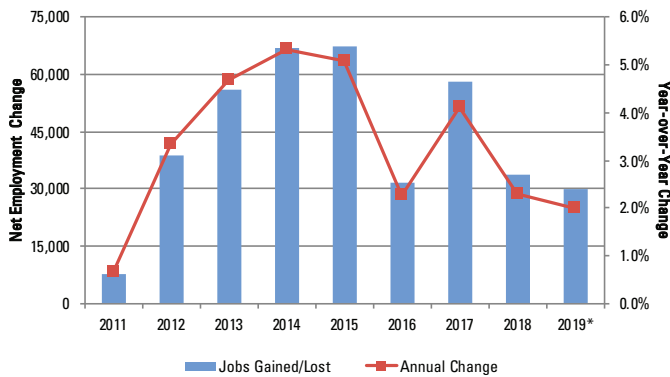
Property Name	Street Address	Units	Sales Price	Price/Unit
Avana Springs	650 Ebbcreek Dr., Corona	320	\$74,400,000	\$232,500
Corona Community Villas	2680 S Main St., Corona	75	\$15,500,000	\$206,666
Las Casitas	4976 Jurupa Ave., Riverside	70	\$11,550,000	\$165,000
Hillside Village	2196 Kendall Dr., San Bernardino	80	\$11,000,000	\$137,500

Looking Ahead

The Inland Empire apartment market is forecast to be impacted by new supply in 2019, with the bulk of the new inventory coming online in the North Ontario and the University City/Moreno Valley submarkets. Vacancy trends will likely be mixed in 2019, with the rate expected to rise in the Class A segment of the market, but remain in the mid-2 percent range in the Class B and Class C properties. While the pace of supply growth is gaining momentum, there is a bit of uncertainty surrounding the primary drivers of demand. Employment growth in the Inland Empire has been among the leaders in recent years, but gains have been uneven in recent quarters, including a slower start pace of additions thus far in 2019.

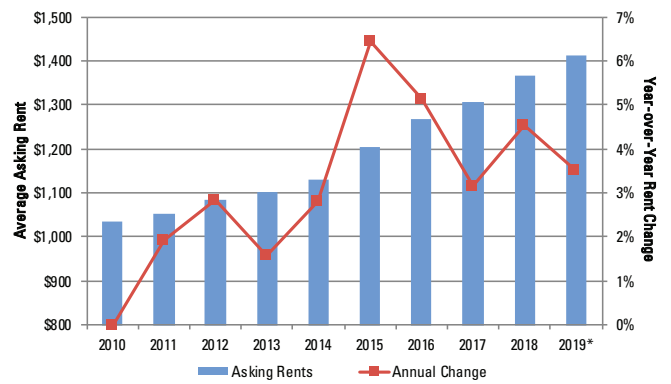
Investment activity levels in the Inland Empire have been very consistent during the past several years, a trend that supports an outlook for a pickup in sales velocity after a bit of a sluggish start to 2019. To this point in 2019, transactions have been most active in properties with fewer than 100 units. This will likely shift in the remainder of the year; the Inland Empire has averaged more than 30 transactions per year of at least 100 units during the past five years. Cap rates appear to have settled into the high-4 percent to low-5 percent range on average and are unlikely to change significantly in the year ahead.

Employee Forecast



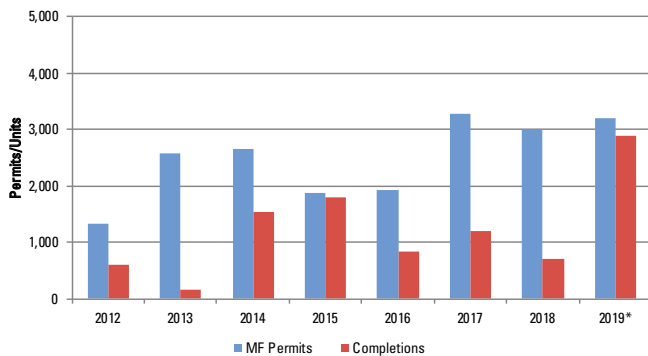
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



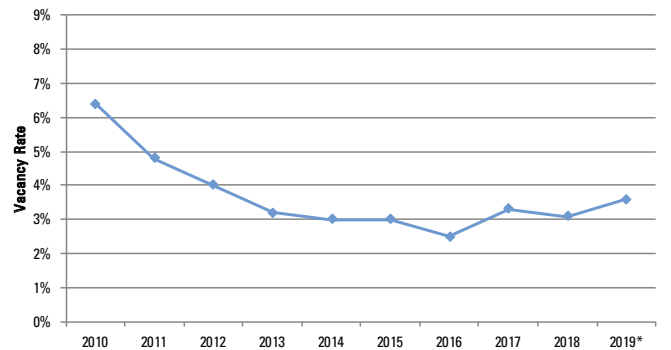
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: NorthMarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of \$13 billion, loan servicing portfolio to more than \$57 billion and the multi-year tenure of our more than 550 people.

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