

Inland Empire Multifamily




Prices Push Higher as Transaction Activity Surges

Highlights

- > The Inland Empire apartment market posted steady performance in the second quarter. Construction was modest, vacancy was flat and rents rose. Looking ahead to the second half of the year, construction is forecast to pick up, which is expected to push the vacancy rate higher.
- > Multifamily vacancy held steady at 3.3 percent during the second quarter. The rate is 10 basis points higher than one year ago.
- > Rents continue to trend higher at a steady pace. Asking rents rose 4 percent year over year, ending the second quarter at \$1,393 per month.
- > Sales of multifamily properties gained momentum in the second quarter. The median price has risen to \$228,900 per unit, and cap rates have compressed below 5 percent.

Inland Empire Multifamily Market Overview

Consistency was the prevailing theme in the Inland Empire multifamily market in the second quarter. The vacancy rate remained flat, and rents continued on a steady upward trajectory. Renter demand is being supported by employment growth, which accelerated in the second quarter following a slow start to the year. On the supply side, deliveries have been modest, but construction is increasing and the pace of completions is forecast to accelerate in the second half of this year.

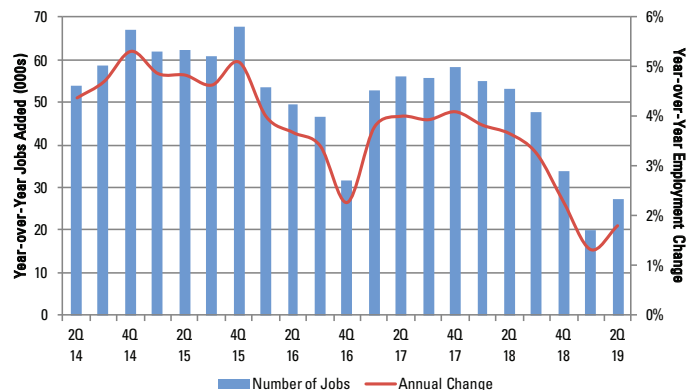
Q2 Snapshot	Inland Empire Market
	Market Fundamentals
	Vacancy 3.3%
	- Year Over Year Change +10 bps
	Asking Rent \$1,393
	- Year Over Year Change +4.0%
	Transaction Activity
	Median Sales Price Per Unit (YTD) \$228,900
	Cap Rates (Avg YTD) 4.9%
	Construction Activity
	Units Under Construction 3,226
	Units Delivered YTD 599

Multifamily investment activity increased in the Inland Empire during the second quarter, with activity rising most dramatically in transactions priced at more than \$50 million. With activity in the larger transactions picking up, per-unit prices rose and cap rates compressed slightly. Despite the latest surge in sales velocity, the number of transactions closed in the first half still lags the pace recorded one year earlier. Activity has been gradually slowing since hitting a cyclical peak in 2016.

Employment

- > Following a few periods of leveling off, the pace of job growth regained momentum in the Inland Empire during the second quarter. Year over year, local employers expanded payrolls by 1.8 percent with the addition of 27,200 net new jobs.
- > The Inland Empire is expected to continue to add logistics jobs. The San Bernardino Airport has a plan in place to add a 700,000-square-foot logistics facility on an empty land parcel near the former Norton Air Force Base site. Preliminary estimates suggest the facility could house as many as 3,000 new jobs.
- > Approximately half of the new jobs that have been added in the past year have been in the education and health services sector. In the past year, employment in the sector has expanded 5.4 percent with the addition of 12,900 positions.
- > **Forecast:** Employers in the Inland Empire are forecast to add 36,000 new jobs in 2019, representing growth of 2.4 percent. This is a slight increase from gains recorded last year.

Employment Overview



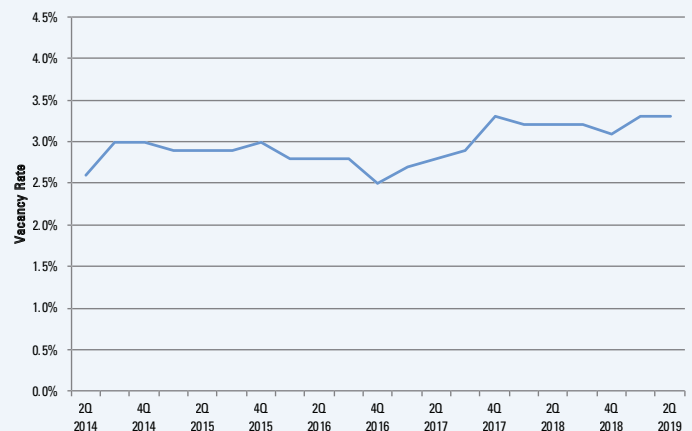
Sources: NorthMarq, Bureau of Labor Statistics

Half of the new jobs added have been in the education and health services sector

Vacancy

- > Multifamily vacancy has been particularly steady in the Inland Empire for the past several years. The rate was flat from the first quarter to the second quarter, holding steady at 3.3 percent. Year to date, vacancy is up 20 basis points.
- > The vacancy rate is up just 10 basis points from one year ago. One of the primary reasons for the vacancy stability has been a slower pace of apartment construction.
- > Vacancy in Class A apartments ended the second quarter at 4.5 percent, up 20 basis points from one year ago. The rate in Class A buildings has averaged 4.4 percent since the beginning of 2018.
- > **Forecast:** An accelerating pace of apartment construction in the second half of the year is expected to push the local vacancy rate higher. Vacancy in the Inland Empire is forecast to end 2019 at 3.6 percent, a 50-basis-point annual increase.

Vacancy Trends



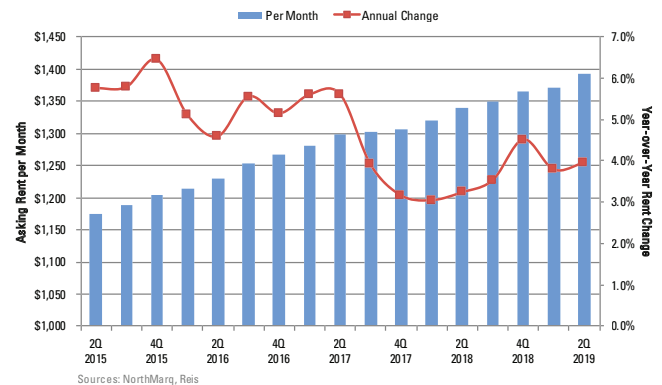
Sources: NorthMarq, Reis

The vacancy rate is up just 10 basis points from one year ago

Rents

- > Rents in the Inland Empire continued to trend higher during the second quarter. Asking rents reached \$1,393 per month, 4 percent higher than one year ago. Rent growth has averaged 3.7 percent since the beginning of 2018.
- > The strongest rent gains are being recorded in the lower tiers of the market. The combined average asking rent in Class B and Class C buildings was \$1,218 per month, 4.7 percent higher than one year ago.
- > Vacancy in the San Bernardino submarket is among the lowest in the Inland Empire and rents in the area are at the lower end of the spectrum. These factors have combined to support rent growth in recent quarters. During the past 12 months, asking rents in the submarket have spiked by approximately 8 percent.
- > **Forecast:** Asking rents in the Inland Empire are forecast to rise 4 percent in 2019, reaching approximately \$1,420 per month.

Rent Trends

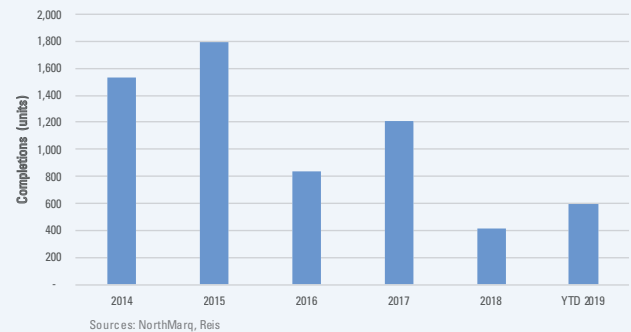


Rent growth has averaged 3.7 percent since the beginning of 2018

Development and Permitting

- > Following the delivery of approximately 325 apartments during the first quarter, developers completed projects totaling 275 units in the second quarter.
- > The modest pace of apartment construction is likely to reverse course before the end of this year. More than 3,200 units are currently under construction.
- > Multifamily permitting rose nearly 15 percent from the first quarter to the second quarter. Developers pulled permits for approximately 875 multifamily units during the second quarter.
- > **Forecast:** Developers are forecast to deliver approximately 3,000 apartment units in 2019, a steep increase from construction totals recorded during the past three years.

Development Trends

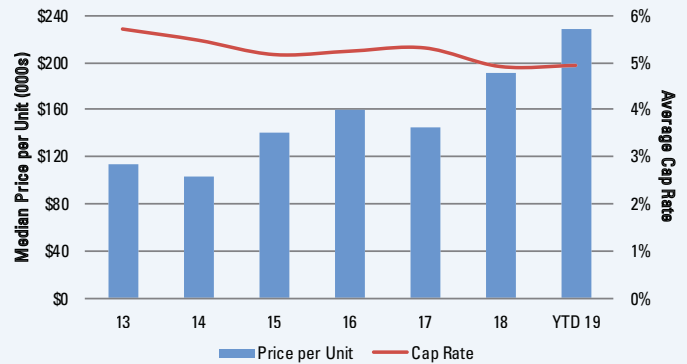


Multifamily permitting rose nearly 15 percent from the first quarter to the second quarter

Multifamily Sales

- > Following a slow start to the year, sales velocity gained momentum during the second quarter. Transaction activity, particularly in sales of more than \$50 million, surged. While fewer properties sold in the first half 2019 than during the first half 2018, the transaction dollar volume is nearly identical for both periods.
- > Prices rose in the second quarter. The median price in sales recorded year to date is \$228,900 per unit, up approximately 20 percent from the median price in 2018.
- > Cap rates compressed during the second quarter, dipping below 5 percent and returning to 2018 levels. Year to date, cap rates have averaged 4.9 percent.

Investment Trends



Transaction activity, particularly in sales of more than \$50 million, surged

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

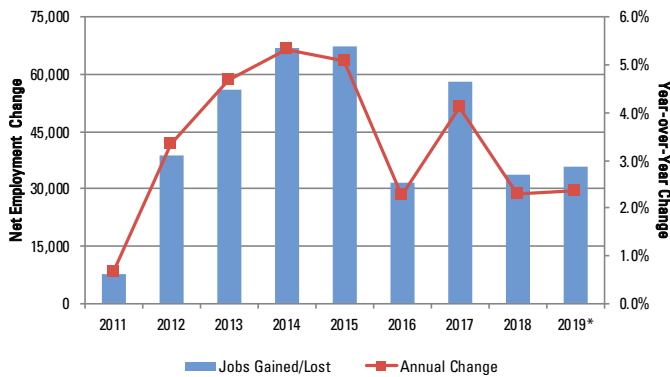
Property Name	Street Address	Units	Sales Price	Price/Unit
Promenade Terrace	451 Wellesley Dr., Corona	330	\$99,000,000	\$300,000
Sonora at Alta Loma	6653 Canary Pine Ave., Alta Loma	247	\$82,500,000	\$334,008
Sage Canyon	42200 Moraga Rd., Temecula	344	\$77,500,000	\$225,291
District at Grand Terrace	1316 S Meadow Ln., Colton	352	\$63,050,000	\$179,119

Looking Ahead

The Inland Empire multifamily market is poised to have a healthy second half of 2019, although the increase in new construction will likely put some upward pressure on vacancy levels. The North Ontario and University City submarkets are the areas expected to be most impacted by new development in the coming quarters. Demand drivers are expected to remain strong, although the threat of escalating trade tensions with China could cause some decline in the trade and warehousing industries that are so vital to the Inland Empire economy.

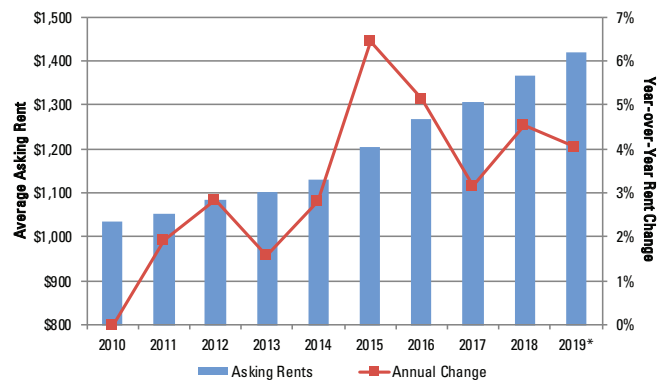
The investment market got off to a slower start to 2019, but activity levels accelerated in the second quarter and the market appears to be on pace to record similar activity levels from the past two years. The momentum from the second quarter appears to have carried over to the third quarter as a handful of transactions had already closed in the first few weeks of July. With investors motivated and financing rates low, the market is poised for additional transaction activity before year end.

Employment Forecast



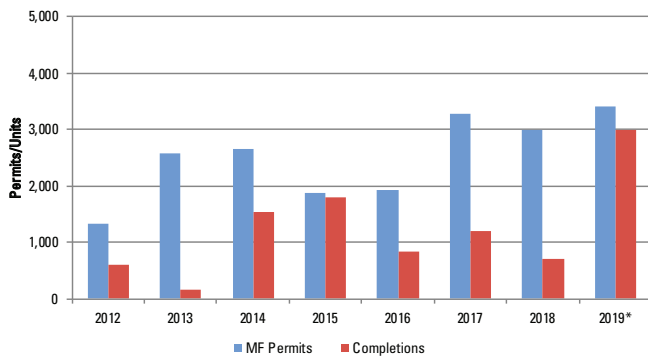
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



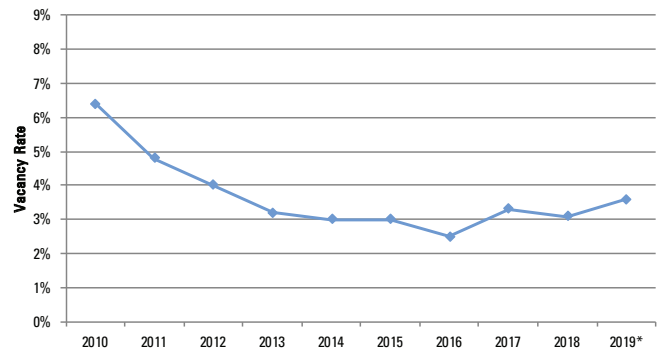
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

For more information, contact:

Shane Shafer

SVP, MANAGING DIRECTOR – INVESTMENT SALES
949.270.3690
sshafer@northmarq.com

Michael Elmore

SVP, MANAGING DIRECTOR – DEBT & EQUITY
949.717.5213
melmore@northmarq.com

Kyle Pinkalla

MANAGING DIRECTOR – INVESTMENT SALES
858.675.7865
kpinkalla@northmarq.com

Trevor Koskovich

PRESIDENT – INVESTMENT SALES
T 602.952.4040
tkoskovich@northmarq.com

Pete O'Neil

DIRECTOR OF RESEARCH
602.508.2212
poneil@northmarq.com

Copyright © 2019 NorthMarq Multifamily, LLC.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

