

Inland Empire Multifamily



Activity Ticks Higher as Year-End Approaches

Highlights

- > Apartment fundamentals did not change significantly in the Inland Empire during the third quarter. The vacancy rate inched higher and rents ticked up, but the market has been quite consistent throughout 2019. Deliveries should pick up in the fourth quarter, providing some modest supply-side pressure.
- > Multifamily vacancy ended the third quarter at 3.4 percent; the rate is up 20 basis points year over year.
- > Asking rents rose 0.9 percent in the third quarter, reaching \$1,405 per month. During the past 12 months, asking rents have advanced 3.7 percent.
- > Investment activity in apartment properties accelerated during the third quarter, and the sales continued into the fourth quarter. The median price in sales thus far in 2019 is approximately \$229,000 per unit, and cap rates have averaged 4.9 percent.

Q3 Snapshot

Inland Empire Market



Market Fundamentals

Vacancy	3.4%
- Year Over Year Change	+20 bps
Asking Rent	\$1,405
- Year Over Year Change	+3.7%



Transaction Activity

Median Sales Price Per Unit (YTD)	\$228,900
Cap Rates (Avg YTD)	4.9%



Construction Activity

Units Under Construction	3,035
Units Delivered YTD	886

Inland Empire Multifamily Market Overview

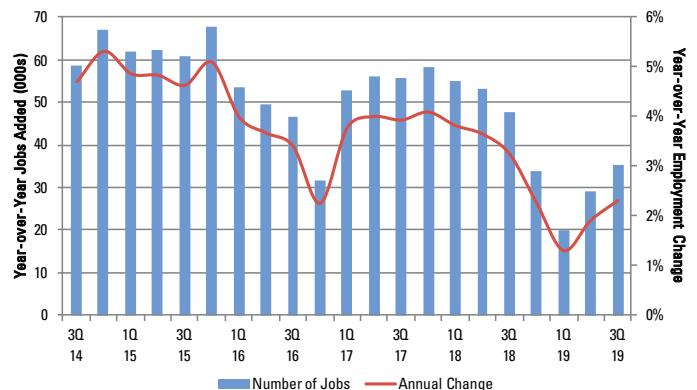
The Inland Empire continued to post consistent multifamily property performance during the third quarter. Renter demand for apartments is being fueled by job growth. Employers have remained active, expanding payrolls, although gains have been concentrated in only a handful of sectors in recent quarters. If a few more industries begin to add workers at a sustainable pace, particularly the area's traditionally strong construction and warehousing sectors, the overall market outlook will improve.

After a sluggish start to the year, investment activity in the Inland Empire multifamily market gained momentum in the third quarter, a trend that should extend through the remainder of 2019. Prices and cap rates have remained steady throughout 2019. While the average transaction size has been close to \$45 million, activity has been concentrated in two ranges, the first in properties priced between \$20 million and \$30 million and the second in assets selling between \$50 million and \$70 million.

Employment

- > After a bit of a sluggish start to the year, employment growth in the Inland Empire accelerated during the middle part of the year. Employers have added 35,200 new net jobs year over year through the third quarter, a growth rate of 2.3 percent.
- > Growth has been concentrated in the education and health services sector, as jobs are added to serve the consistently strong population expansion in the Inland Empire. During the past 12 months, 13,000 jobs have been created in the education and health services sector, representing growth of 5.4 percent.
- > For the Inland Empire labor market to fully gain momentum, the construction sector will need to strengthen. In the past year, construction employment has contracted slightly, with net job losses of 1,400 positions. During previous high-growth periods, it has been common for construction employment in the Inland Empire to rise by 5 percent or more.
- > Employers in the Inland Empire are on pace to grow payrolls 2.5 percent in 2019, adding 38,000 new jobs. Gains in 2018 were more modest, totaling only 33,700 new jobs.

Employment Overview



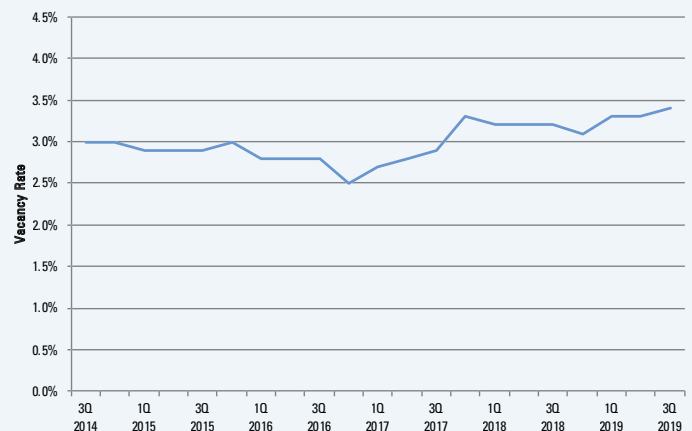
Sources: NorthMarq, Bureau of Labor Statistics

During the past 12 months, 13,000 jobs have been created in the education and health services sector

Vacancy

- > Multifamily vacancy inched higher in the third quarter, ticking up 10 basis points to 3.4 percent. Vacancy in the area ticked above 3 percent at the end of 2017 and has remained in a fairly tight range during the past eight quarters.
- > Year over year through the third quarter, vacancy is up 20 basis points. One year ago, vacancy had crept up 30 basis points.
- > Vacancy in Class A units inched 10 basis points higher in the third quarter, ticking up to 4.6 percent. The rate is up 30 basis points year over year.
- > With construction of new units expected to close 2019 on an upswing, the local vacancy rate is likely to creep higher. Vacancy in the Inland Empire is forecast to end 2019 at 3.6 percent, 50 basis points higher than at the end of the preceding year.

Vacancy Trends



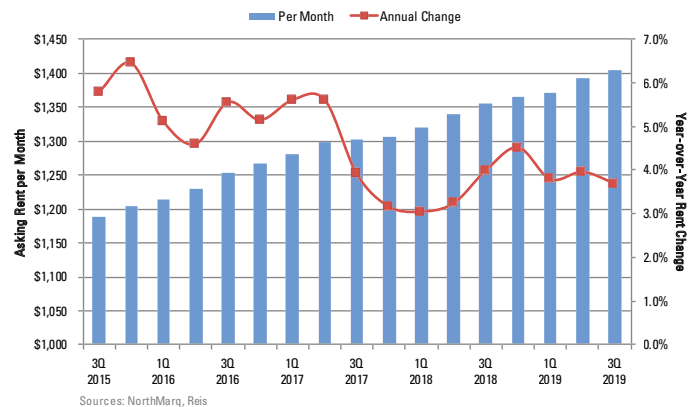
Sources: NorthMarq, Reis

Vacancy in the Inland Empire has remained in a fairly tight range during the past eight quarters

Rents

- > Rent growth in the Inland Empire slowed a bit during the third quarter. Asking rents rose 0.9 percent in the third quarter, following an increase of 1.7 percent in the preceding three months. Rent growth has averaged 1.1 percent per quarter since the beginning of 2016.
- > Asking rents reached \$1,405 per month in the third quarter, up 3.7 percent year over year. Rent growth was a bit stronger a year ago; last year at this time, asking rents had advanced 4 percent.
- > Rent growth in the Class A segment of the market has cooled thus far in 2019, in part due to a slowdown in the introduction of newer, more expensive units to the market. Class A asking rents ended the third quarter at \$1,626 per month, up 2.4 percent year over year.
- > Asking rents in the Inland Empire are on pace to advance 4 percent by the end of 2019, reaching \$1,420 per month.

Rent Trends

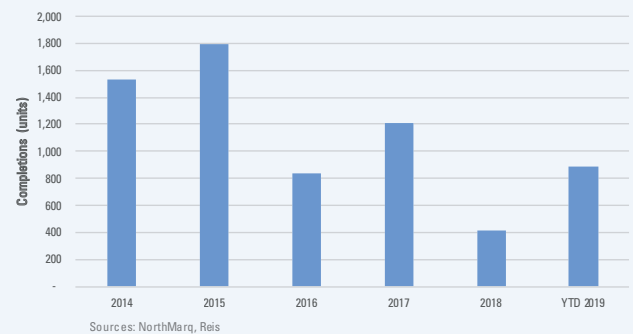


Asking rents reached \$1,405 per month, up 3.7 percent year over year

Development and Permitting

- > Construction continued at a fairly steady pace during the third quarter with more than 200 units coming online. Year to date, nearly 900 apartment units have been delivered.
- > Projects totaling more than 3,000 units are currently under construction. Projects are evenly distributed between Riverside County and San Bernardino County. Several developments in the University City submarket are forecast to come online during the next few quarters.
- > Developers pulled permits for approximately 800 multifamily units during the third quarter. Year to date, permits for 2,700 multifamily units have been issued, up 12 percent compared to the same period in 2018.
- > In 2019, developers are forecast to deliver approximately 2,700 apartment units to the market, after completions totaled only about 700 units in 2018.

Development Trends

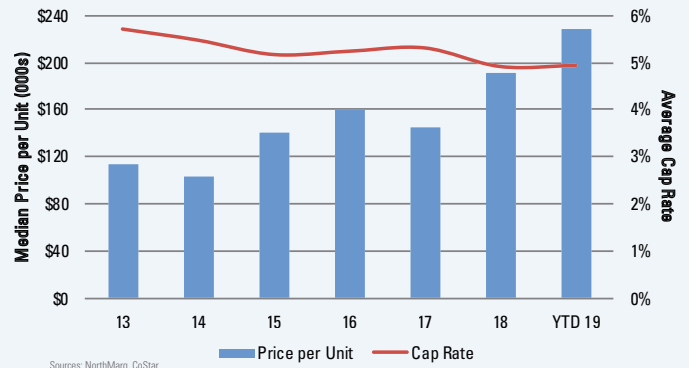


Projects totaling 3,000 units are currently under construction

Multifamily Sales

- > Sales of apartment properties gained momentum during the third quarter, with more properties changing hands than during the first half of the year. Several projects sold priced between \$50 million and \$70 million. Activity year to date has closely tracked levels from 2018.
- > The median price thus far in 2019 is approximately \$229,000 per unit, up nearly 20 percent from the median price in 2018. Approximately one-third of the transactions in the market have closed for \$300,000 per unit or more.
- > Cap rates remained in their earlier ranges during the third quarter, averaging 4.9 percent. Cap rates have remained essentially flat—below 5 percent—since the beginning of 2018.

Investment Trends



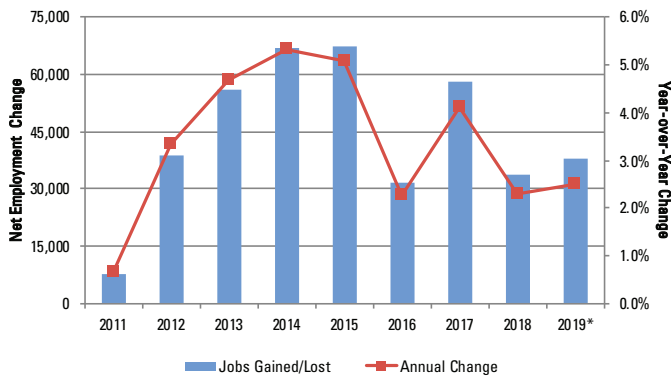
Sales of apartment properties gained momentum during the third quarter

Looking Ahead

The Inland Empire multifamily market is positioned for a healthy close to 2019 and a strong year of property performance in 2020. In recent quarters, construction activity has been modest, while renter demand for apartments has been growing steadily as employers have expanded payrolls. In the short-term, apartment deliveries are forecast to pick up in the next few quarters before slowing in the second half of next year. Payroll growth could accelerate, particularly if the local construction sector gains some momentum.

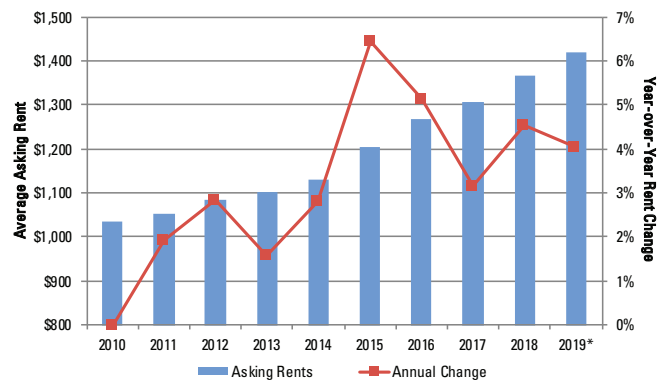
Investment activity picked up in the third quarter, setting the stage for an active close to the year. With interest rates holding steady and vacancy tight enough to support continued rent growth, there is little to deter investment activity. The passage of statewide rent control legislation adds some uncertainty to future operating conditions, but with increases allowed to reach 5 percent plus the rate of inflation, owners should be able to continue to improve cash flows in the years to come.

Employment Forecast



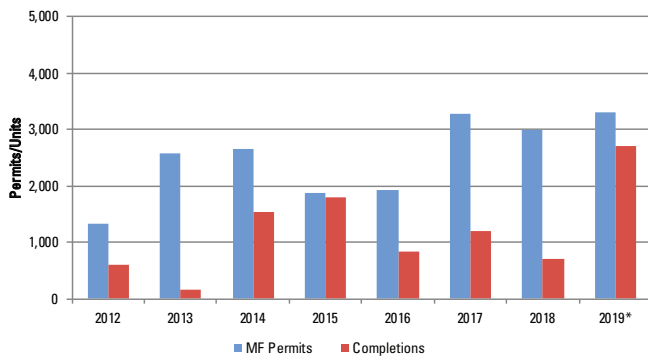
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



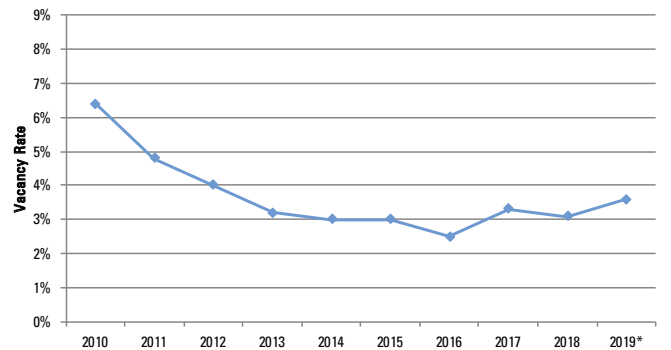
* Year End Forecast
Sources: NorthMarq, Reis

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.

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