MARKET REPORT | 3Q/2020

Inland Empire Multifamily

NorthMarq

Operational Strength Spurring Investor Interest

Highlights

- The Inland Empire multifamily market outperformed its California peers in the third quarter. Local rents held steady, while vacancy inched lower.
- After rising 50 basis points from the final quarter of 2019 to the second quarter this year, multifamily vacancy got back on track. In the third quarter, the vacancy rate dipped 10 basis points to 3.7 percent.
- Apartment rents ended the third quarter at $1,459 per month, 3.4 percent higher than one year earlier.
- The multifamily investment market picked up steam in the third quarter. Prices also increased, bringing the year-to-date median to approximately $234,900 per unit.

Q3 Snapshot	Inland Empire Market
Market Fundamentals	
Vacancy	**3.7%**
- *Year Over Year Change*	**+30 bps**
Asking Rent	**$1,459**
- *Year Over Year Change*	**+3.4%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$234,900**
Cap Rates (Avg YTD)	**4.9%**
Construction Activity	
Units Under Construction	**922**
Units Delivered YTD	**1,661**

Inland Empire Multifamily Market Overview

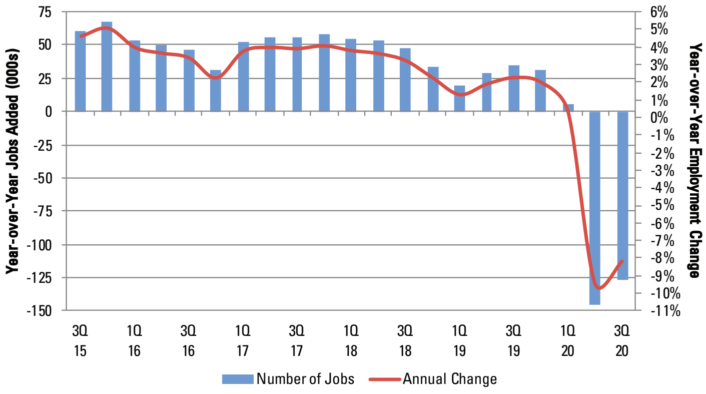
The Inland Empire multifamily market posted steady performance in the third quarter, during a time where most markets in the state recorded a considerable pullback in rents. Asking rents posted steady gains and the vacancy rate inched lower, following a spike at the beginning of the year primarily due to an influx of new supply. The local employment market has been more resistant to the pandemic's impact due to its significant share of jobs in the logistics sector. This factor, along with the market's relative affordability, has helped support renter demand in the region throughout the uncertain economic conditions.

Only a handful of multifamily properties traded during the third quarter, although activity was up from the second quarter. Investors are moving back into the market after spending a few months on the sidelines as the coronavirus outbreak disrupted activity. In the projects that did sell, prices rose in the third quarter, and cap rates have remained consistently below 5 percent for the past three years.

Employment

- Employment totals in the Inland Empire remain well below pre-COVID levels, but the market is adding jobs again and outperforming most major metros in California. Companies added 28,000 jobs in the third quarter, and about 40 percent of pandemic-related job cuts have now been recovered.
- Year over year, employment in the Inland Empire has declined 8.2 percent with a net loss of nearly 127,000 jobs. Initially, more than 200,000 jobs were slashed during the spring, and employers have been re-staffing payrolls during the past five months.
- Retail employment showed some signs of bouncing back in recent months. During the third quarter, retail employment expanded with the addition of 9,500 positions. The sector has still recorded losses year to date, allowing for further additions leading into the holiday season.
- **Forecast:** The pace of employment losses topped 12 percent of the local workforce earlier this year, but the market is adding back workers. In 2020, total employment in the Inland Empire is forecast to contract approximately 6.5 percent, setting the stage for healthy gains in the year ahead.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

During the third quarter, retail employment expanded with the addition of 9,500 positions

Vacancy

- An accelerating pace of new development in the Inland Empire pushed vacancy higher during the first half of the year, but that trend reversed course in recent months. In the third quarter, local vacancy dipped 10 basis points to 3.7 percent.
- Year over year, vacancy in the Inland Empire has increased 30 basis points. The local vacancy rate has gradually ticked higher since the beginning of 2019.
- Vacancy in the University City/Moreno Valley submarket tightened this year even as new units came online. Vacancy in the submarket ended the third quarter at 5 percent, 50 basis points lower than one year ago.
- **Forecast:** Apartment vacancy in the Inland Empire generally remains in a very tight range with net absorption often closely tracking new supply growth. The rate is forecast to end 2020 at approximately 4 percent.

Vacancy Trends

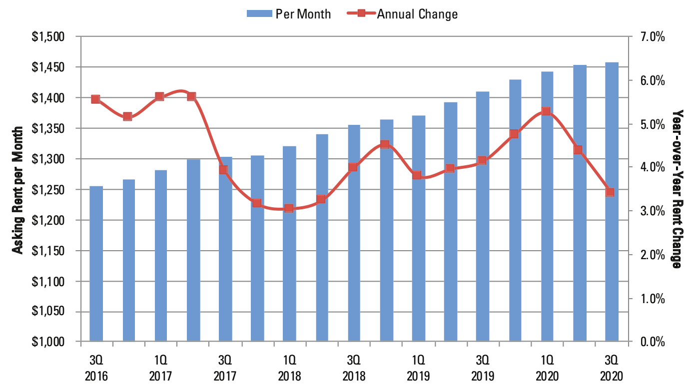
Sources: NorthMarq, Reis

Local vacancy dipped 10 basis points to 3.7 percent

Rents

- Asking rents in the Inland Empire crept higher in the third quarter, reaching $1,459 per month. Rents fell in most markets across the country, but healthy demand yielded modest gains at the local level.
- Local asking rents have advanced 3.4 percent year over year.
- Rent growth has been strongest in the lower tiers, reflecting the continued demand for less costly housing options. The combined average asking rents for Class B and Class C units ended the third quarter at $1,281 per month, 3.4 percent higher than one year earlier.
- **Forecast:** Rents in the Inland Empire are expected to remain fairly steady during the fourth quarter and should end the year at approximately $1,464 per month. This would reflect an increase for the full year of approximately 2.5 percent.

Rent Trends



Sources: NorthMarq, Reis

Local asking rents have advanced 3.4 percent year over year

Development and Permitting

- Following an active first half for development, no significant projects were delivered during the third quarter. Developers have completed more than 1,600 apartment units year to date, a number that is nearly identical to the total for the full year in 2019.
- The development pipeline has thinned thus far in 2020. There are approximately 925 apartment units under construction, down 70 percent from one year earlier.
- Multifamily permitting in the Inland Empire is on pace for its slowest year in the past decade, and only about 550 permits have been pulled in the first three quarters of 2020. Permitting had been active in previous years, and from 2017 to 2019, developers pulled an average of more than 3,000 permits each year.
- **Forecast:** Apartment construction in the Inland Empire is forecast to total approximately 2,200 units this year. This would mark the highest annual total of new deliveries since 2007.

Development Trends

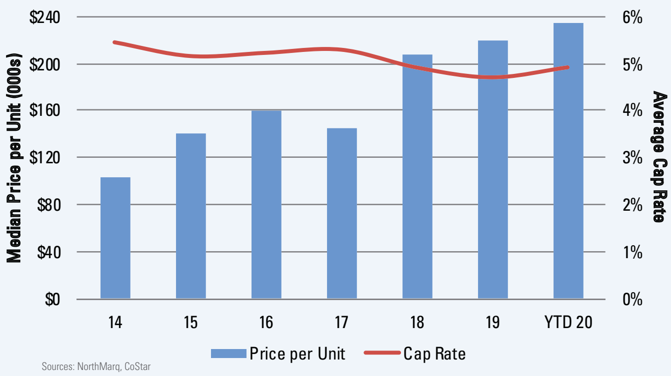
Sources: NorthMarq, Reis

Developers have completed more than 1,600 apartment units year to date

Multifamily Sales

- Transaction activity in the Inland Empire ticked higher during the third quarter, rising from the low levels recorded during the second quarter. Despite the recent increase, deal flow has not matched the 2019 pace; sales velocity through the first three quarters is down more than 50 percent from the same period in the previous year.
- Prices rose in the third quarter, boosting the year-to-date median price to $234,900 per unit. In deals that closed this quarter, the median price was $289,500 per unit.
- Cap rates have been stable in 2020 but are a bit higher than the 2019 figure. The average cap rate this year is approximately 4.9 percent, 20 basis points higher than last year.

Investment Trends



Sources: NorthMarq, CoStar

Prices rose in the third quarter, boosting the year-to-date median price to $234,900 per unit

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

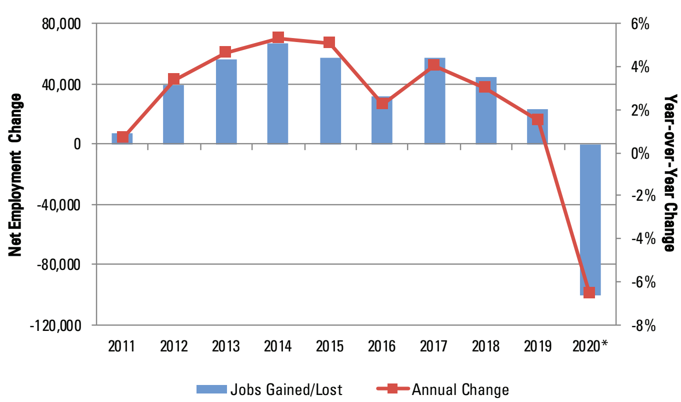
Property Name	Street Address	Units	Sales Price	Price/Unit
Highlands at Grand Terrace	11750 Mount Vernon Ave., Grand Terrace	556	$125,000,000	$224,820
The Trails at Canyon Crest	5377 Quail Run Rd., Riverside	216	$76,500,000	$354,167

Looking Ahead

The Inland Empire is expected to continue to record healthy renter demand for units through the remainder of this year and into 2021, even as job losses linger for a few more quarters. Despite fairly steady demand, the local vacancy figure will likely inch higher through the end of this year. The anticipated rise in vacancy should be fueled by new development, but the pipeline will thin in 2021, and a long-term oversupply condition is not likely.

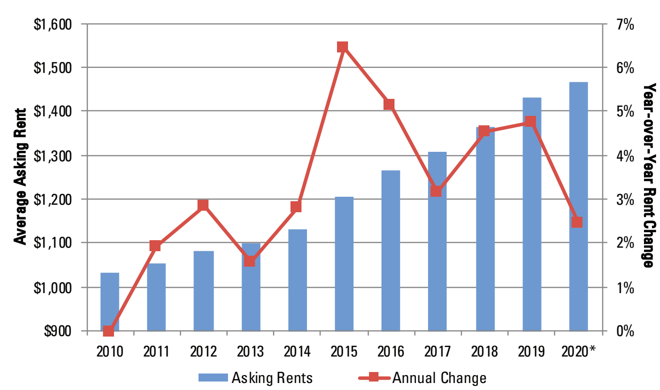
Investment activity is likely to gain momentum at the end of 2020, and the number of transactions that close during the fourth quarter could match or exceed the combined total from the first three quarters of the year. Sales of apartment properties accelerated during the first few weeks of October, setting the stage for a more active close to the year. With financing rates low, cap rates are expected to remain near previous ranges or could even compress slightly.

Employment Forecast



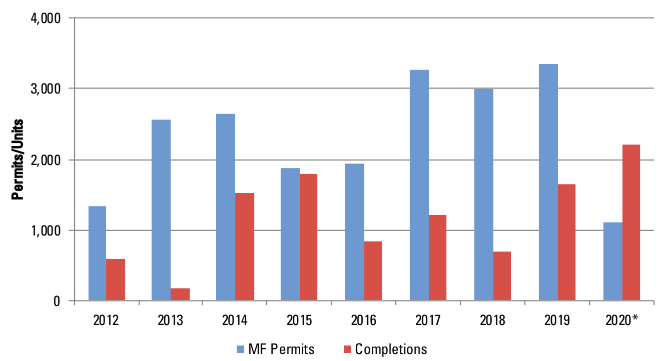
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



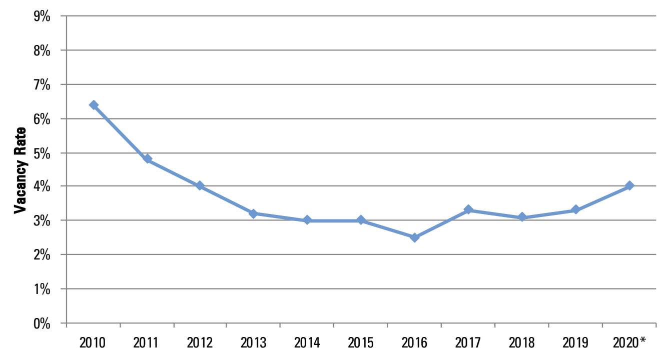
* Year End Forecast
Sources: NorthMarq, Reis

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 $14 billion, loan servicing portfolio of more than $61 billion and the multi-year tenure of our nearly 600 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

Pete O'Neil
DIRECTOR OF RESEARCH
602.508.2212
poneil@northmarq.com

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