

Inland Empire Multifamily




Large Transactions Return in Final Quarter of 2020

Highlights

- > The Inland Empire was impacted by the pandemic considerably less than the rest of California, and the local multifamily market outperformed in 2020. While the market recorded significant layoffs, major logistics companies like Amazon continue to expand, providing some support to the employment market.
- > Vacancy rose 40 basis points in 2020, reaching 3.7 percent, but all of the increase occurred in the first half of the year. During the second half, the rate dipped 10 basis points.
- > Apartment rents in the Inland Empire increased 2.6 percent during 2020, reaching \$1,467 per month. Rents contracted in nearly all California markets during the year, but the Inland Empire's healthy absorption totals supported steady rent increases.
- > The multifamily investment market gained momentum in the fourth quarter. The median price rose 9 percent in 2020 to \$240,000 per unit, while cap rates averaged 4.8 percent. Late in the year, activity picked up in larger transactions; during the final few months of the year, nearly 65 percent of deals traded for more than \$50 million.

Inland Empire Multifamily Market Overview

Multifamily property fundamentals proved to be more resilient in the Inland Empire than in neighboring markets in 2020. Despite an increase in new supply, the local vacancy rate ticked only slightly higher, as renter demand was supported by a thriving transportation and logistics infrastructure. Rents rose throughout the year, and while gains were more modest than in recent years, a return to more significant growth is forecast for 2021. Supply-side pressures are beginning to ease, with the current number of apartment units under construction down more than 50 percent year over year.

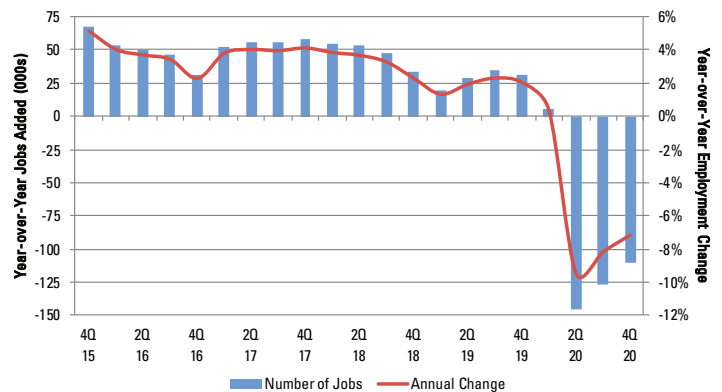
Q4 Snapshot	Inland Empire Market
	Market Fundamentals
	Vacancy 3.7%
	- Year Over Year Change +40 bps
	Asking Rent \$1,467
	- Year Over Year Change +2.6%
	Transaction Activity
	Median Sales Price Per Unit (YTD) \$240,000
	Cap Rates (Avg YTD) 4.8%
	Construction Activity
	Units Under Construction 1,026
	Units Delivered YTD 1,931

The Inland Empire investment market closed 2020 on an upswing. Sales velocity accelerated, prices rose, and cap rates trended lower. The market was propelled by larger deals; sales volume in the fourth quarter exceeded the combined total from the first three quarters of the year. The properties that sold reflected the strong operating conditions in the market. Properties that changed hands during the fourth quarter generally had low vacancies and commanded prices near the high end of the market's pricing spectrum.

Employment

- > Employment in the Inland Empire expanded by nearly 9,000 net jobs in the fourth quarter, following the addition of 31,000 positions in the third quarter. Despite the gains recorded during the second half of the year, total employment contracted by 7.1 percent in 2020, with the loss of approximately 110,000 jobs.
- > Transportation and logistics employers have been sources of stability in the local labor market. Employment in the trade, transportation, and utilities industry is the largest in the Inland Empire, accounting for roughly 28 percent of all local jobs. Employment in the sector was down just 2.1 percent in 2020 and is forecast to gain momentum in the coming year, as the economy regains momentum.
- > While lockdowns have stifled much of the local economy, there is a handful of industries that expanded in 2020. Construction employment grew by 2.6 percent in 2020, with the addition of nearly 3,000 net new jobs.
- > **Forecast:** The Inland Empire's labor market is poised for a strong year of hiring. Area employers are forecast to add nearly 50,000 jobs in 2021, expanding total employment by 3.3 percent.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Area employers are forecast to add nearly 50,000 jobs in 2021

Vacancy

- > Apartment vacancy ended the fourth quarter at 3.7 percent, matching the figure from one quarter earlier. Vacancy ticked higher in the first half of 2020 but declined 10 basis points in the second half.
- > For the full year, vacancy rose 40 basis points. The rate was pushed higher by an increase in deliveries, rather than a cooling of renter demand. For the year, net absorption totaled nearly 1,400 units, down just 4 percent from 2019 levels.
- > There is considerable renter demand for lower-tier assets in the Inland Empire. The combined vacancy rate in Class B and Class C units has consistently hovered around 2.5 percent since the beginning of 2018.
- > **Forecast:** Renter demand for apartments is expected to remain strong while the pace of new construction slows in 2021, pushing the local vacancy rate lower. Vacancy in the Inland Empire is forecast to retreat 20 basis points in 2021, with the rate reaching 3.5 percent.

Vacancy Trends



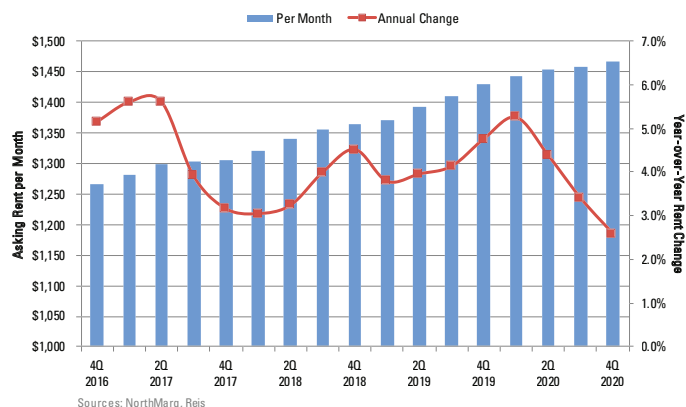
Sources: NorthMarq, Reis

Vacancy declined 10 basis points in the second half

Rents

- > Rents inched higher in the final few months of 2020. Local asking rents increased 0.5 percent during the fourth quarter, reaching \$1,467 per month. The Inland Empire’s steady pace of absorption and low vacancy rates allowed for ongoing rent increases even during an uncertain year.
- > Apartment rents in the Inland Empire advanced 2.6 percent during 2020, one of the faster rates of growth among major markets in California. Since 2015, rent gains have averaged 4.3 percent per year.
- > Asking rents in the University City/Moreno Valley submarket expanded at a higher clip than the overall market. Rents in the submarket rose 4.3 percent in 2020 to \$1,552 per month.
- > **Forecast:** Following gains in 2020, rent growth is expected to accelerate slightly. Apartment rents are forecast to climb 4 percent in 2021, reaching \$1,525 per month.

Rent Trends

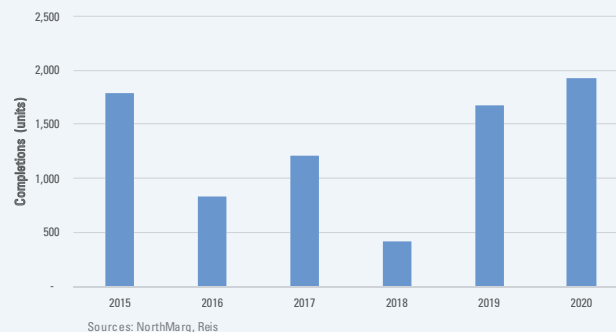


Apartment rents in the Inland Empire advanced 2.6 percent during 2020

Development and Permitting

- > In 2020, apartment developers completed more than 1,900 units, up 15 percent from 2019. While construction was active throughout much of the year, no significant projects were brought online during the fourth quarter.
- > The development pipeline has thinned, following two consecutive years of significant deliveries. Approximately 1,000 apartment units are under construction in the Inland Empire, down more than 50 percent from one year ago. Projects under construction in the University City/Moreno Valley submarket total approximately 415 units.
- > Developers pulled permits for nearly 1,400 multifamily units during 2020, the lowest figure since 2012. From 2015 to 2019, multifamily permitting in the Inland Empire averaged roughly 2,700 units each year.
- > **Forecast:** Apartment construction in the Inland Empire is expected to pull back following active levels from 2019 to 2020. Developers are forecast to bring approximately 500 rental units online during 2021.

Development Trends

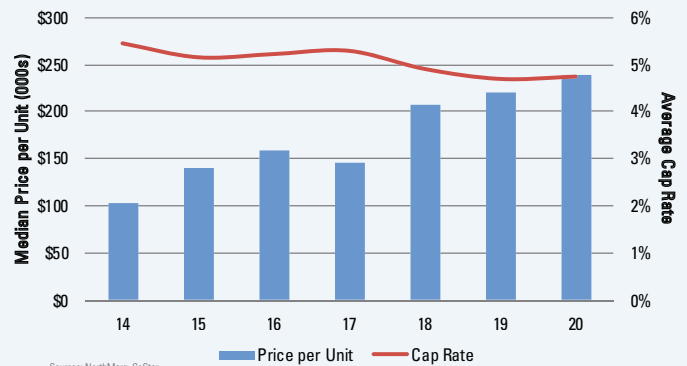


Approximately 1,000 apartment units are under construction, down more than 50 percent from one year ago

Multifamily Sales

- > Sales velocity accelerated to close the year, with the number of deals doubling from the third quarter to the fourth quarter. Despite the coronavirus limiting deal flow from April to August, transaction activity declined just 8 percent from 2019 to 2020.
- > In transactions that closed during 2020, the median price was \$240,000 per unit, up 9 percent from 2019. Several deals at the top of the market exceeded \$340,000 per unit this year.
- > Cap rates compressed, averaging just 4.6 percent in the fourth quarter. During the full 2020 calendar year, the average cap rate was 4.8 percent.

Investment Trends



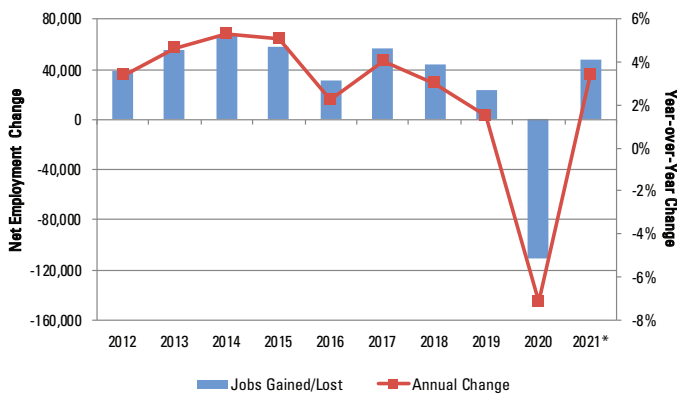
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Looking Ahead

After a steady year of property performance in 2020, the Inland Empire multifamily market is expected to record stronger performance in the year ahead. As the economy more fully reopens, local employment should bounce back. Hard-hit sectors such as leisure and hospitality and retail are expected to add back nearly 30,000 workers in 2021, supplementing the traditional population-fueled gains across the broader economy. With the local labor market expected to gain momentum, absorption should remain healthy, which will combine with a slower pace of new development to support a tightening vacancy rate and additional increases to local rents.

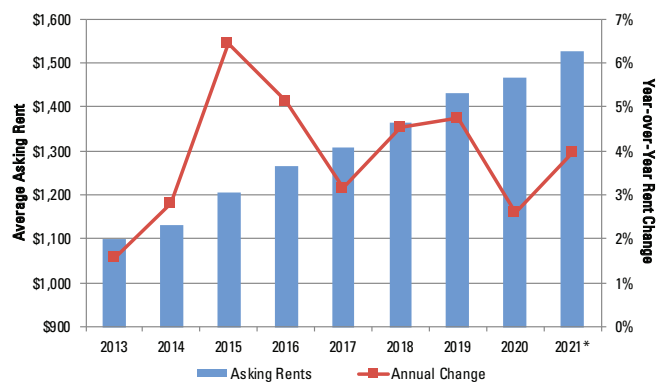
The investment activity increase at the end of 2020 is forecast to carry over in 2021. Rental properties in the Inland Empire outperformed, despite the economic turbulence of the past year, and the region is expected to recover at an above-average economic pace in the coming quarters. This should continue to attract investors. The surge in new development in the past few years could boost investment activity in the year to come. A few newer projects have already sold after lease-up, with additional transactions likely in 2021.

Employment Forecast



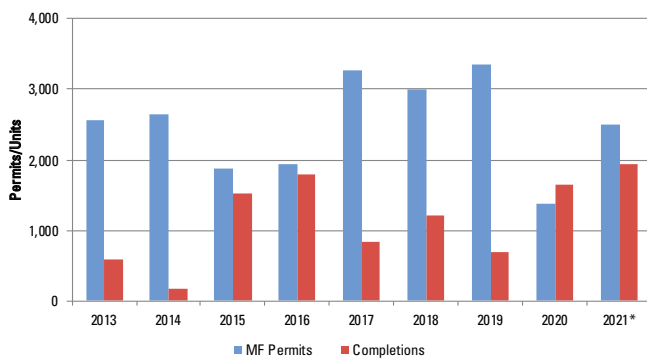
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



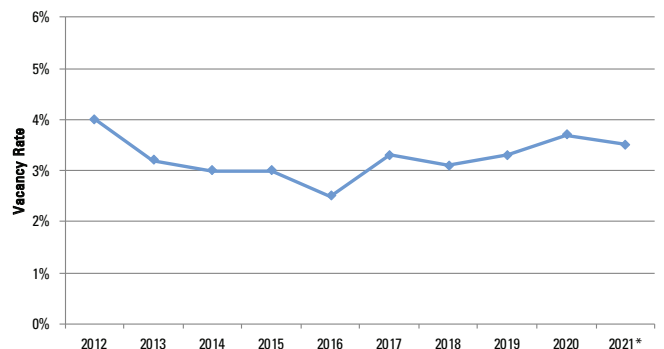
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

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