

Inland Empire Multifamily




Vacancy Tightens, Rents Continue to Climb as Deliveries Slow

Highlights

- > Operating conditions in the Inland Empire strengthened during the opening period of 2021. A break in multifamily deliveries allowed vacancy to compress, while rental rates climbed higher.
- > The local vacancy rate improved to start 2021, retreating 30 basis points during the first quarter. Year over year, vacancy has tightened 20 basis points.
- > Rents rose throughout 2020 and got off to a solid start to this year. Asking rents rose 1.4 percent during the first quarter, reaching \$1,487 per month.
- > While multifamily property fundamentals performed quite well during the first quarter, there were only a handful of significant sales transactions. In the deals that did close, the median price reached approximately \$237,000 per unit, while cap rates averaged 4.5 percent.

Inland Empire Multifamily Market Overview

Fueled by its expanding population and thriving transportation/logistics sector, the Inland Empire multifamily market has outperformed other California metro areas since the beginning of 2020. The Inland Empire began this year with another solid period as vacancy tightened, and the pace of rent growth accelerated. Supporting renter demand in the area is a recovering labor market; employers added 23,000 jobs during the first quarter, setting the stage for a healthy year of gains in 2021. On the supply side, a slowing pace of construction will support continued low vacancy rates this year.

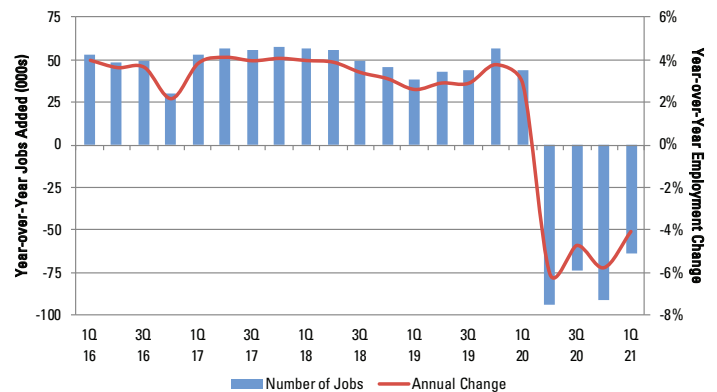
Q1 Snapshot	Inland Empire Market
	Market Fundamentals
	Vacancy 3.4%
	- Year Over Year Change -20 bps
	Asking Rent \$1,487
	- Year Over Year Change +3.1%
	Transaction Activity
	Median Sales Price Per Unit (YTD) \$237,000
	Cap Rates (Avg YTD) 4.5%
	Construction Activity
	Units Under Construction 996
	Units Delivered YTD 0

After closing 2020 on an upswing, fewer multifamily properties traded in the Inland Empire during the first quarter. While only a few significant properties sold during the first quarter, the downturn in activity is expected to be short-lived, and sales velocity began to show signs of picking up in the first few weeks of the second quarter. Cap rates have remained low, averaging approximately 4.5 percent, reflecting the competition in the market for the few properties that became available.

Employment

- > The pace of hiring in the Inland Empire accelerated as the economy in Southern California started reopening. Businesses added 23,000 jobs during the first quarter. Total employment is down 4.1 percent from a year earlier.
- > The leisure and hospitality sector led the way during the first quarter, expanding by more than 8,000 jobs. Despite the additions in the first quarter, area leisure and hospitality employment is still down 23 percent year over year.
- > Topgolf recently announced plans to open their first location in the Inland Empire. Topgolf will build a facility in Ontario, which will include hitting bays, a full-service restaurant and bar, and additional event space. The complex is scheduled to open in early 2022 and is expected to employ around 400 people.
- > **Forecast:** After a favorable start to the year, the Inland Empire labor market should continue to add new jobs at a healthy pace. Total area employment is forecast to expand by 60,000 net jobs, a 4 percent gain from the end of 2020.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Businesses added 23,000 jobs during the first quarter

Vacancy

- > Vacancy tightened at the beginning of the year, as construction slowed following an active year. Apartment vacancy declined 30 basis points in the first quarter to 3.4 percent.
- > The Inland Empire market has absorbed the considerable amount of new inventory that delivered in 2020, and vacancy is down on an annual basis. Year over year, apartment vacancy has decreased 20 basis points.
- > Strong renter demand in the Colton/Loma Linda submarket pushed vacancy to tight levels. Apartment vacancy in Colton/Loma Linda has fallen 110 basis points in the last 12 months and currently sits at 2.7 percent.
- > **Forecast:** Apartment vacancy tightened during the first quarter, and further improvement is projected for the remainder of 2021. The local vacancy rate is forecast to end the year at 3.2 percent, down 50 basis points from the end of 2020.

Vacancy Trends



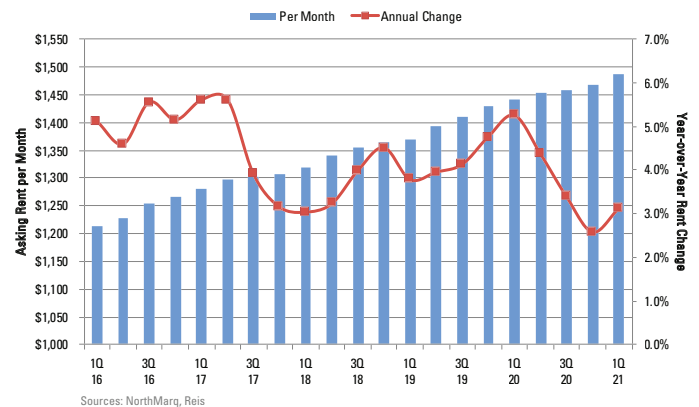
Sources: NorthMarq, Reis

Year over year, apartment vacancy has decreased 20 basis points

Rents

- > After recording modest increases in the past few quarters, the pace of rent growth picked up at the beginning of the year. Asking rents rose 1.4 percent from the fourth quarter to the first quarter, reaching \$1,487 per month.
- > Asking rents in the Inland Empire have advanced 3.1 percent in the past year, a stronger gain than in most other markets in the state.
- > Rent growth in Class A properties has accelerated in recent quarters. Class A asking rents rose 1.2 percent in the first quarter, reaching \$1,715 per month. Year over year, rent growth in Class A units has totaled 3.9 percent.
- > **Forecast:** With much of the new supply from last year already absorbed, multifamily operators should have more room to increase rents. Asking rents are forecast to expand by 4.3 percent in 2021, reaching \$1,530 per month.

Rent Trends

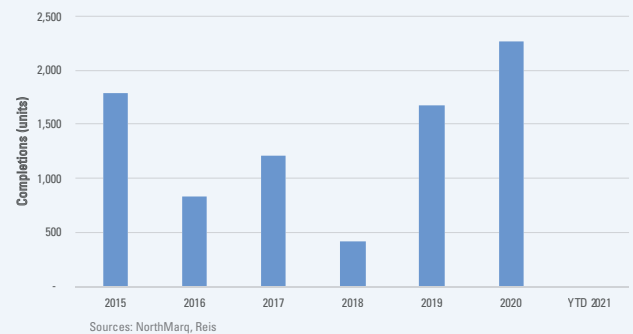


Asking rents in the Inland Empire have advanced 3.1 percent in the past year

Development and Permitting

- > Apartment development leveled off in the first quarter, following an active year in 2020. No significant projects delivered in the period, but construction is expected to pick up in the months ahead.
- > The development pipeline is reasonably modest compared to levels in recent years. Multifamily projects totaling approximately 1,000 units are under construction in the Inland Empire, down 40 percent from the period one year ago.
- > During the first quarter of 2021, developers pulled permits for approximately 350 multifamily units. Permitting totals for multifamily units had averaged approximately 2,700 units per year since 2013 but slowed to less than 1,400 units in 2020.
- > **Forecast:** Apartment development is anticipated to decline from the robust levels recorded in 2020, and projects totaling around 1,000 apartment units are forecast to deliver in 2021.

Development Trends

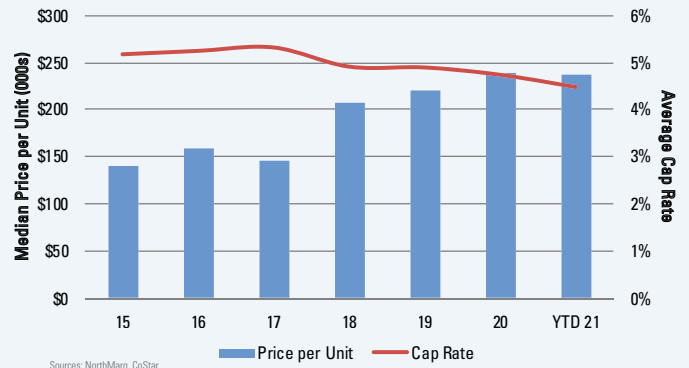


Multifamily projects totaling approximately 1,000 units are under construction

Multifamily Sales

- > After transaction activity peaked at the end of last year, multifamily sales velocity cooled in the first three months of 2021. Only a handful of significant transactions closed in the first quarter. Sales in the first quarter were down about 50 percent when compared to levels from one year ago.
- > Pricing to this point in 2021 is nearly identical to the median price that was posted last year. The median price recorded in the first quarter was approximately \$237,000 per unit.
- > Cap rates compressed a bit at the start of the year, averaging 4.5 percent, 30 basis points lower than the average in 2020.

Investment Trends



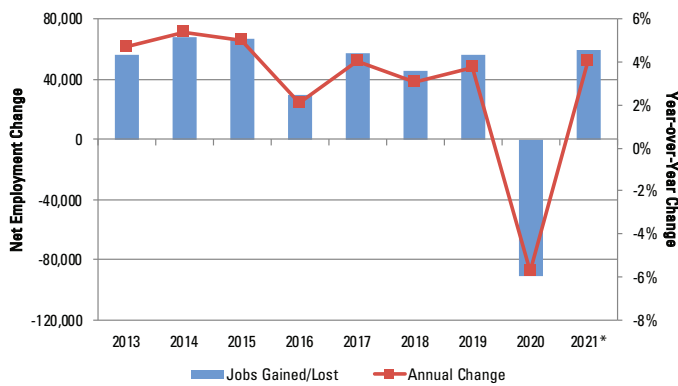
Cap rates compressed a bit at the start of the year, averaging 4.5 percent

Looking Ahead

The multifamily market in the Inland Empire maintained mostly stable property fundamentals throughout 2020, despite economic challenges resulting from the COVID-19 outbreak. Conditions have improved to start 2021, and the upswing in operating fundamentals should continue in the coming quarters, as the local economy strengthens, and the pace of new supply growth slows. The area vacancy rate has already inched lower in 2021, and further declines are anticipated. Rents rose throughout 2020, and more significant increases are likely before the end of the year.

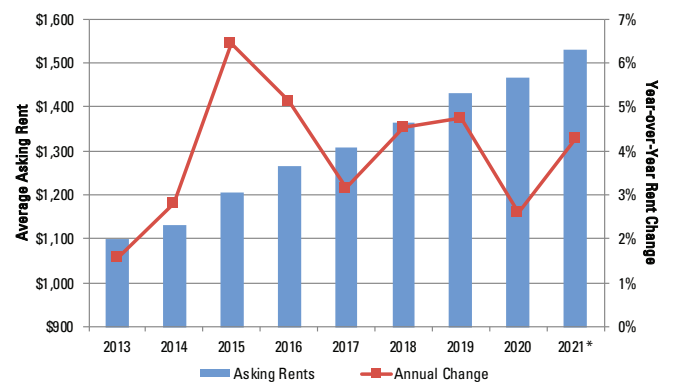
The local investment market began 2021 with a rather slow start, but sales velocity should gain momentum as the year progresses. Investment activity is expected to be fueled by the rent gains and tightening vacancy levels forecast to be recorded later this year. While transaction activity so far in 2021 has been modest, cap rates have compressed, highlighting the continued investor demand for available properties. Cap rates will likely level off for the remainder of the year, barring an unexpected decline in interest rates.

Employment Forecast



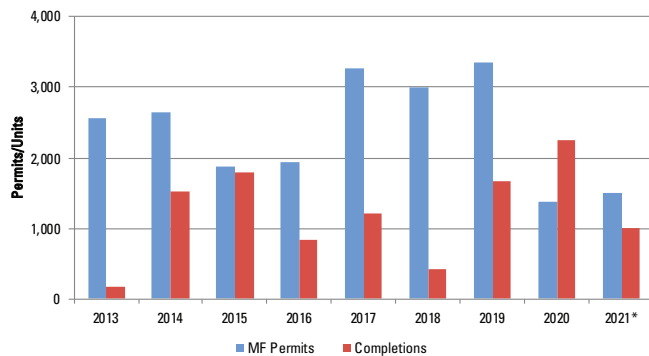
* Year-End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



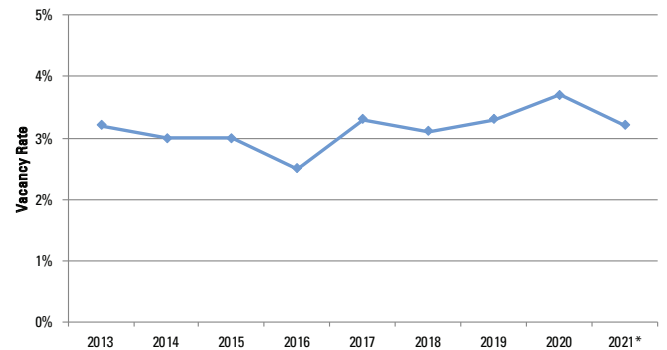
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

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