Market Insights

Inland Empire Multifamily 3Q 2022

Northmarq

Construction Activity

4,341

Units under construction

1,284

Units delivered (YTD)

Market Fundamentals

2.9%

Vacancy

-30bps | Year over year change

$1,854

Asking Rent

+8.1% | Year over year change

Transaction Activity

$335,500

Median sales price per unit (YTD)

New Development Activity Unable to Keep Pace with Demand Growth

Highlights

- Property performance metrics in the Inland Empire remained strong during the third quarter, although the pace of rent growth cooled.
- The vacancy rate ticked lower during the third quarter, dipping 10 basis points to 2.9 percent. Year over year, vacancy has improved by 30 basis points.
- Asking rents inched higher in the third quarter, reaching $1,854 per month. Despite a minimal increase in the last three months, current rents are up 8.1 percent from one year ago.
- The local investment market strengthened during the third quarter as the pace of deals accelerated, and per-unit pricing remains well above last year's figure. The median sales price to this point in the year is $335,500 per unit, up more than 25 percent from the median price in 2021.

Inland Empire Multifamily Market Overview

The Inland Empire multifamily market maintained healthy operating conditions during the third quarter. Vacancy crept lower, and asking rents posted a strong annual gain, despite only inching higher in the last three months. Local vacancy rates typically remain within a fairly tight range, generally between 3 percent and 3.5 percent. During the third quarter, the vacancy rate fell below 3 percent, reaching its lowest figure in five years. Vacancies tightened even as developers continued to move new projects through the construction pipeline. Completions year to date have already topped deliveries for all of 2021, but vacancy has steadily inched lower since mid-2020.

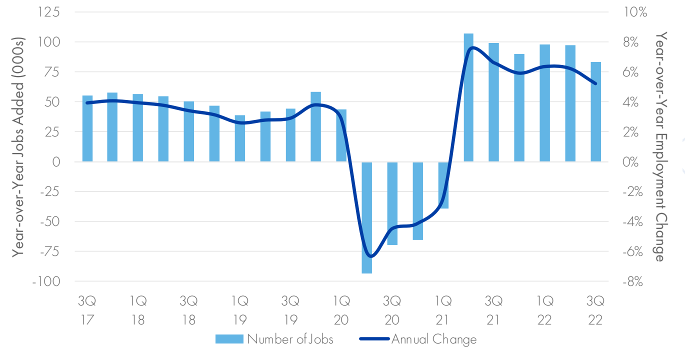
Multifamily investment activity in the Inland Empire gained momentum in recent months, as the number of deals during the third quarter outpaced the previous two periods. Transaction activity was concentrated in the Riverside area, while a handful of other sales closed in some of the higher-rent submarkets in San Bernardino County. Sales prices remain elevated with the median price reaching $335,500 per unit, more than a 25 percent increase from last year's figure. On average, cap rates during the third quarter were similar to levels in the first half of the year. Cap rates did trend higher in the final few weeks of the quarter and will likely average closer to 4 percent in the coming months.

Employment

- The local employment market continued to rebound at a rapid pace in recent months with the addition of 16,800 workers during the third quarter. Year over year, total employment grew by 83,200 positions, a gain of 5.2 percent.
- The region's large transportation, distribution, and warehousing sector is recording some of the fastest growth in the Inland Empire. During the past year, expansion in this sector spiked by more than 10 percent with the addition of 26,600 jobs.
- Kaiser Permanente is spending $1.7 billion to expand its facilities within Riverside County. The development projects include new hospitals in Riverside and Moreno Valley, a second office building in Murrieta, and a new medical facility in Wildomar. With completion dates slated between 2023 and 2027, the healthcare organization will create more than 1,000 additional jobs in the Inland Empire.
- **Forecast:** Area employers are expected to add approximately 75,000 workers to payrolls in 2022, an annual increase of 4.7 percent. Growth is forecast to be broad-based with many of the region's leading industries recording the steepest gains.

> Year over year, total employment grew by 83,200 positions.

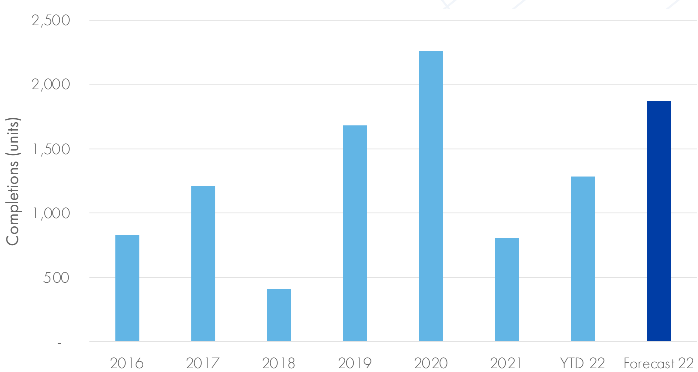
Employment Overview



Sources: Northmarq, Bureau of Labor Statistics

> Year to date, more than 1,280 units have been completed.

Development Trends



Sources: Northmarq, CoStar, Reis

Development and Permitting

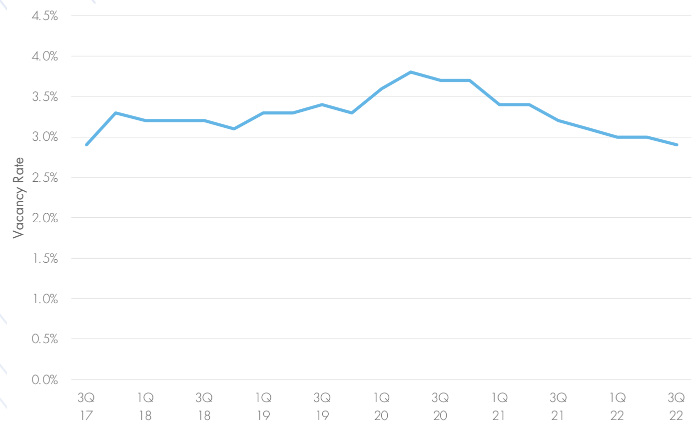
- The pace of multifamily deliveries accelerated in recent months, as projects totaling 935 units came online during the third quarter. Year to date, more than 1,280 apartment units have been completed.
- Projects totaling nearly 4,350 units are currently under construction throughout the Inland Empire, more than doubling the number of units in the development pipeline one year ago. The most active submarkets for new construction include the job centers of Ontario/Rancho Cucamonga and Riverside/Corona.
- Permitting gained momentum during the third quarter, as developers pulled permits for more than 700 multifamily units in the last three months, up 12 percent from the previous period. Additionally, permitting activity year to date is ahead of the pace established through the first three quarters in 2021.
- **Forecast:** Apartment developers are expected to finish the year strong, as projects totaling more than 1,850 units are scheduled to come online in 2022. Deliveries have averaged approximately 1,300 units per year since 2015.

Vacancy

- Local vacancy ticked lower during the third quarter, reaching a five-year low. Area vacancy dropped 10 basis points in the last three months to 2.9 percent.
- Year over year, vacancy is down 30 basis points. The rate has dropped 40 basis points during the past 12 months to 4.6 percent in the University City/Moreno Valley submarket. Vacancy peaked in the submarket a few years ago, after projects totaling more than 1,000 units were delivered, but the rate has since trended lower as the local development pipeline thinned.
- Upper-tier properties continue to account for the bulk of the absorption throughout the metro area. Year over year, vacancy in Class A assets fell 110 basis points to 2.9 percent. Class A net absorption has totaled nearly 1,000 units during the past 12 months.
- **Forecast:** Vacancy is projected to inch slightly higher in the final months of the year, as supply growth will outpace net demand in the fourth quarter. The vacancy rate is forecast to finish 2022 at 3 percent, down 10 basis points for the year.

> Year over year, vacancy is down 30 basis points.

Vacancy Trends



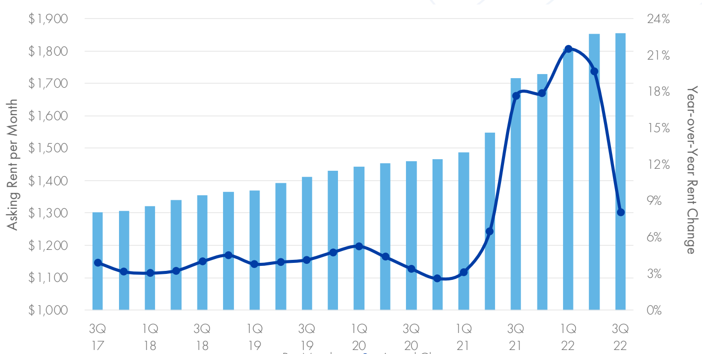
Sources: Northmarq, Reis

Rents

- Following steady increases in the first half of the year, asking rents leveled off in recent months. Local apartment rents finished the third quarter at $1,854 per month, just $1 per month higher than during the second quarter.
- While rent growth stalled in the Inland Empire during the third quarter, asking rents posted strong increases in recent periods, jumping 8.1 percent during the past 12 months. Annual rent growth averaged 4.4 percent from 2015 to 2020 before spiking in 2021.
- While asking rents have trended higher across the quality spectrum, the strongest gains took place in the region's top-tier properties. Year over year, average Class A asking rents rose nearly 9 percent to $2,174 per month.
- **Forecast:** Local asking rents are expected to inch higher in the next few months. Apartment rents are projected to rise roughly 7.5 percent in 2022, reaching $1,860 per month.

> Local rents finished the third quarter at $1,854 per month.

Rent Trends



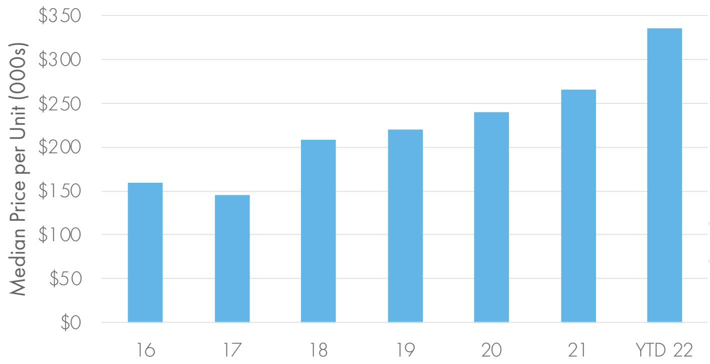
Sources: Northmarq, Reis

Multifamily Sales

- Transaction activity picked up during the third quarter, nearly matching the total number of deals that closed in the first half of the year. Sales volume year to date is down 11 percent from the same period in 2021.
- The median sales price thus far in 2022 is $335,500 per unit, up more than 25 percent from the median price in 2021. Part of the spike in prices is due to the mix of assets that have changed hands. To this point in 2022, Class B assets have accounted for roughly 60 percent of the transactions, with a concentration of activity in Rancho Cucamonga and Riverside.
- Cap rate trends during the first few weeks of the third quarter were quite low, with a handful of transactions occurring at or below 3 percent. Rates rose later in the quarter, with most properties trading with cap rates closer to 4 percent or higher. The average for the quarter as a whole was approximately 3.6 percent.

> The median sales price thus far in 2022 is $335,500 per unit.

Investment Trends



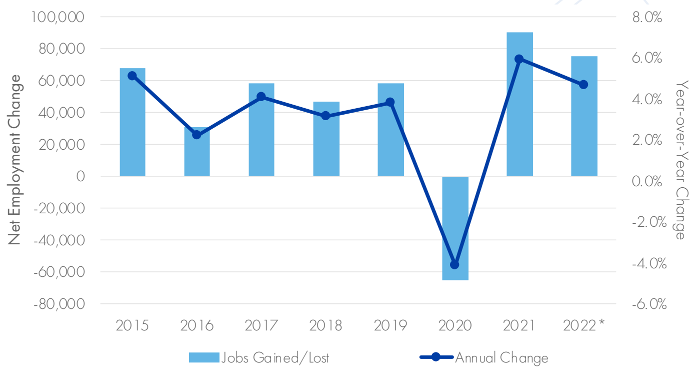
Sources: NorthMarq, CoStar

Looking Ahead

As housing affordability becomes an increasing challenge throughout Southern California, the Inland Empire is forecast to continue to attract new residents priced out of more expensive neighboring markets. Population growth has been particularly strong in recent years in Riverside County, which expands by an average of about 40,000 new residents each year. The influx of new residents will continue to create demand for all forms of housing, including apartments throughout the Inland Empire. Multifamily developers have projects in the pipeline that should closely track demand growth in the coming years, keeping vacancy rates within a tight range and supporting future rent increases.

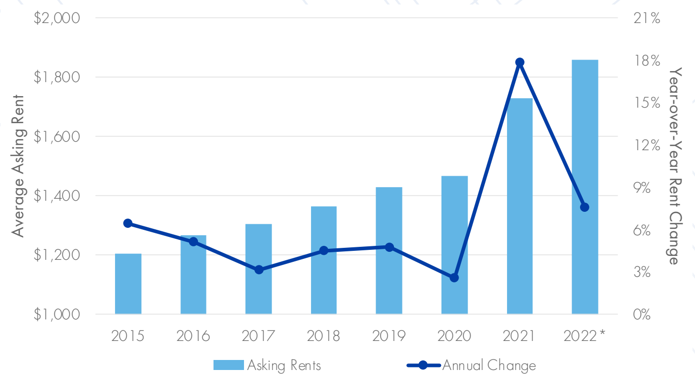
Supported by strong operating conditions throughout the region, the multifamily investment market should sustain momentum in the coming months, and investor demand is expected to remain healthy. While properties will trade across the quality spectrum, Class B and Class C assets will likely continue to account for the bulk of the transaction mix, especially around the Ontario area and in fast-growing Riverside County. Cap rates began to trend higher in the final few weeks of the third quarter, which could be a signal that buyers and sellers are moving closer to a consensus on new yield expectations in light of the more challenging lending environment.

Employment Forecast



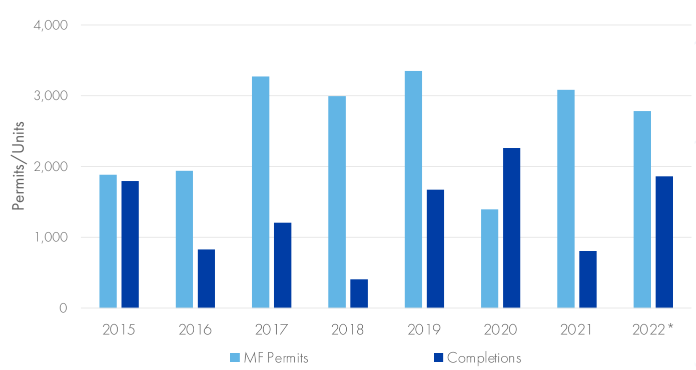
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



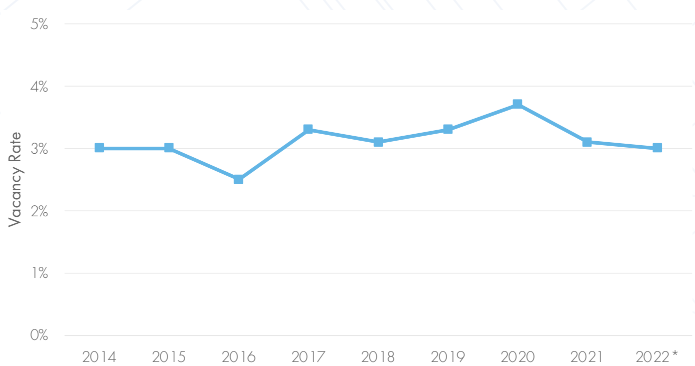
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: Northmarq, Census Bureau, CoStar, Reis

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

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About Northmarq

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