

# Market Insights

Inland Empire Multifamily 3Q 2021



## Construction Activity



**1,980**

Units under construction

**804**

Units delivered (YTD)

## Market Fundamentals



**3.2%**

Vacancy

**-50bps**

Year over year change

**\$1,716**

Asking Rent

**+17.6%**

Year over year change

## Transaction Activity



**\$239,600**

Median sales price per unit (YTD)

**4.1%**

Cap rates (YTD)

# Rents Spike as Vacancy Dips to Lowest Level Since 2018

## Highlights

- Very strong operating conditions were recorded in the Inland Empire apartment market during the third quarter. With the local economy rebounding, vacancy tightened and rents gained momentum. Investors are responding to the strengthening conditions by increasing activity.
- Vacancy in the Inland Empire dropped 20 basis points during the third quarter, falling to 3.2 percent. Year over year, the rate has declined 50 basis points.
- Following a period of strong rent growth in the second quarter, area rents spiked 10.8 percent during the third quarter, reaching \$1,716 per month. Asking rents have increased 17.6 percent year over year.
- Investment activity gained momentum during the third quarter with more properties changing hands in the past three months than closed in the entire first half of this year. Cap rates are compressing as demand intensifies. Cap rates year to date have averaged about 4.1 percent, but in the third quarter, they fell to approximately 3.5 percent.

## Inland Empire Multifamily Market Overview

The Inland Empire multifamily market posted a strong performance during the third quarter with rents spiking and vacancy tightening. The region continues to attract new residents, particularly from more expensive, neighboring markets in Southern California. In addition to a rising population, housing demand is being supported by a recovery in the local labor market, particularly in the Inland Empire's core industries of warehousing, distribution, and logistics. Additional growth is likely going forward, which should support the local apartment vacancy rate, which dipped to its lowest point since late 2018 during the third quarter. With operating conditions tight and demand elevated, rents are on an extended upswing, surging by more than \$150 per month since midyear.

The third quarter proved to be a very significant period of multifamily transaction activity in the Inland Empire. More properties traded in the third quarter than changed hands in the first half of 2021, and the number of transactions recorded year to date has already outpaced totals for all of last year. The current investment market is particularly competitive, with cap rates compressing to about 3.5 percent in transactions that have closed in recent months, down more than 100 basis points from levels recorded throughout 2020 and in the first half of this year. The rapid rent growth being achieved in the market will likely continue to support cap rate compression in the coming quarters.

## Employment

- After a very active first half of the year when employers added nearly 45,000 jobs, the pace of employment growth slowed during the third quarter. Employers added 6,500 workers to payrolls in the third quarter. Year over year, area employment has expanded by 3.5 percent with the addition of 52,500 positions.
- The booming e-commerce business is having a significant impact on economic growth in the Inland Empire. In the past 12 months, transportation and warehousing employment in the area has expanded by 6.9 percent, with the addition of nearly 17,000 jobs. Gains in this sector have accounted for nearly one-third of all new jobs in the Inland Empire in the past year.
- Amazon recently opened a new air hub in San Bernardino, which services the region as an advanced air cargo facility. The 660,000-square-foot facility will serve as the Southern California headquarters for Amazon’s expansive air freight network. The new site is creating up to 1,000 local jobs.
- **Forecast:** The employment market is expected to continue to add workers back in the final months of the year. Total employment is expected to grow 4.6 percent during 2021 with the addition of nearly 70,000 jobs.



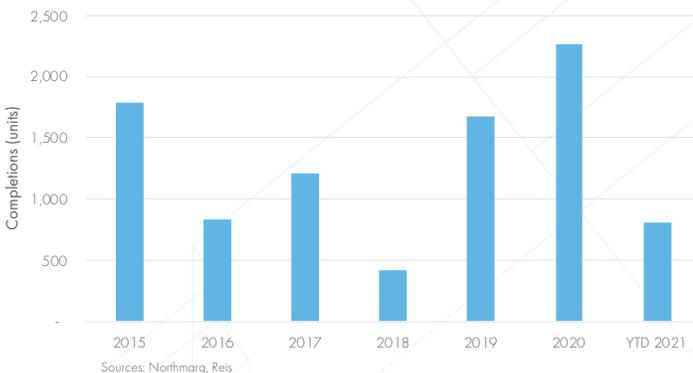
Year over year, area employment has expanded by 3.5 percent.

### Employment Overview



Currently, nearly 2,000 units are under construction.

### Development Trends



## Development and Permitting

- Apartment deliveries have been modest to this point in 2021, although the pace of completions accelerated during the third quarter when projects totaling more than 450 units came online. Year to date, more than 800 units have been delivered, down 51 percent from the same period in 2020.
- Construction began to gain momentum in the second half of the year. Projects totaling nearly 2,000 units are currently under construction, double the number of units that were under way one year ago.
- Multifamily permitting accelerated during the third quarter as developers pulled permits for nearly 640 units, up 48 percent from last quarter. Permitting activity year to date is ahead of last year’s pace but trailing behind a spike in activity from 2017 through 2019.
- **Forecast:** Apartment construction in the Inland Empire is on pace to slow in 2021. Projects totaling around 1,000 units are forecast to be delivered by the end of the year, after more than 2,200 units came online in 2020.

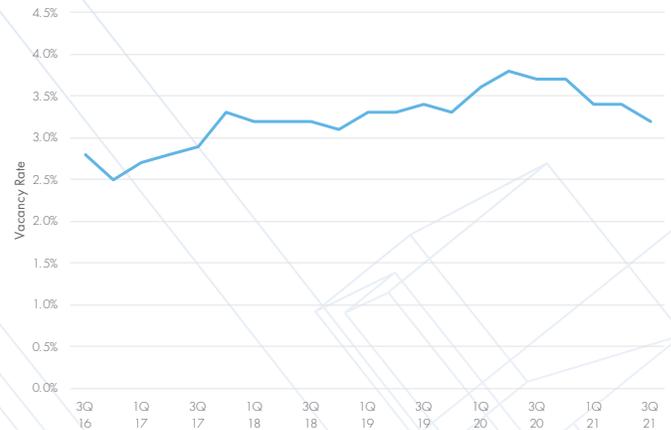
## Vacancy

- With construction activity limited and demand accelerating, vacancy in the Inland Empire tightened during the third quarter, dropping 20 basis points to 3.2 percent. The rate is at its lowest level since the end of 2018.
- Year over year, vacancy has declined 50 basis points. Vacancy is low in nearly every portion of the market; more than half of the submarkets in the region ended the third quarter with vacancy rates below 3 percent.
- The strongest vacancy improvements are being recorded at the higher end of the quality spectrum. The Class A vacancy rate declined 60 basis points during the third quarter, ending the period at 3.8 percent.
- **Forecast:** Multifamily vacancy in the Inland Empire is forecast to inch lower in the remainder of the year. The local vacancy rate is expected to end the year at 3.1 percent, down 60 basis points from the end of 2020.



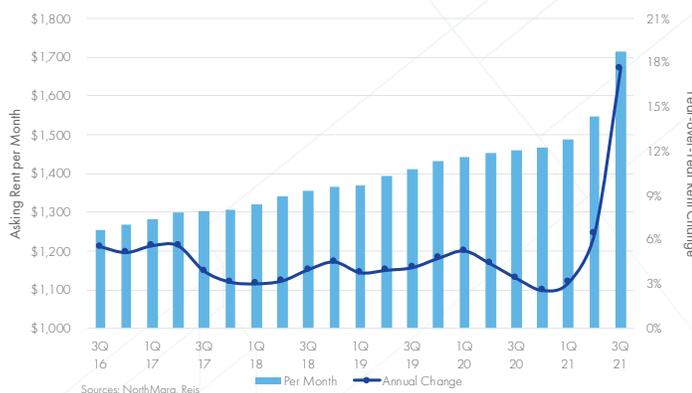
Year over year, vacancy has declined 50 basis points.

### Vacancy Trends



Apartment rents in the Inland Empire jumped 17.6 percent year over year.

### Rent Trends



Sources: NorthMarq, Reis

## Rents

- Rents have been on an upward climb for the past several quarters, but the pace of growth has accelerated in recent quarters. Asking rents spiked during the third quarter, jumping 10.8 percent, following a 4.1 percent rise in the second quarter.
- Year over year, asking rents in the region have expanded 17.6 percent to \$1,716 per month. This is the largest annual growth on record in the Inland Empire.
- With the overall economy improving, rent growth has been strongest in the most expensive units. Class A asking rents advanced 11.6 percent during the third quarter, reaching \$1,995 per month. Year over year, rents in Class A units have spiked nearly 20 percent higher.
- **Forecast:** As renter demand increases, asking rents will continue to rise. Apartment rents are forecast to advance 19.3 percent in 2021, reaching nearly \$1,750 per month.

## Multifamily Sales

- The multifamily investment market gained momentum during the third quarter. Transaction activity in the third quarter more than doubled levels from the second quarter. The number of properties sold in the third quarter outpaced the total activity from the first half of the year by nearly 15 percent.
- The median price thus far in 2021 is nearly \$239,600 per unit, similar to the median price in 2020. While the bulk of the projects that sold during the first half of the year included older Class B and Class C properties, a few newer Class A projects changed hands in the third quarter. These newer properties have changed hands at prices exceeding \$400,000 per unit.
- Cap rates have averaged approximately 4.1 percent to this point in 2021, down roughly 60 basis points from the 2020 average. The lowest cap rates were recorded in the most recent transactions; cap rates in sales that closed in the third quarter averaged approximately 3.5 percent.



Cap rates in sales that closed in the third quarter averaged approximately 3.5 percent.

### Investment Trends

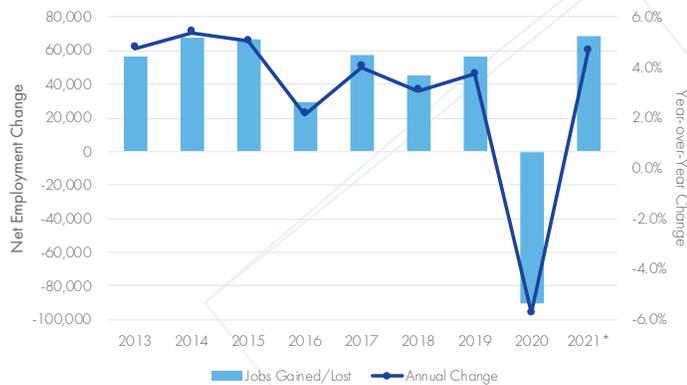


# Looking Ahead

Economic growth in the Inland Empire is forecast to remain strong in the coming quarters. The supply chain disruptions recorded in late summer and fall of this year highlighted the persistently high volumes of international trade that pass through the Ports of Los Angeles and Long Beach. The importing and distribution of these goods fuel a large segment of the Inland Empire economy. Tenant demand for industrial space remains robust, and developers are forecast to break ground on more than 30 million square feet of new industrial product by the end of 2022. The employees that staff these new facilities will support future renter demand for apartment properties.

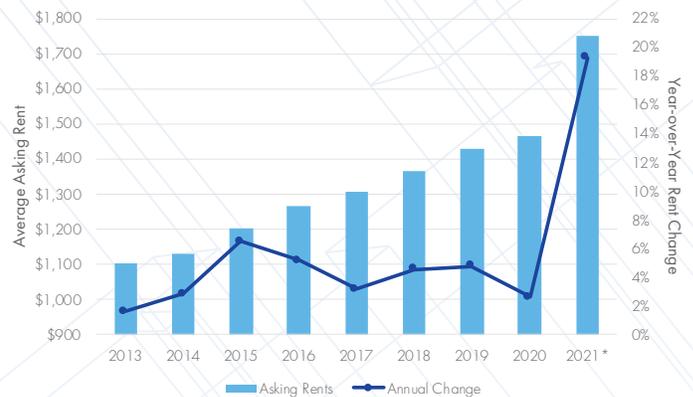
The momentum created in the investment market in the third quarter is likely to carry over through the end of this year and into 2022. The Inland Empire investment market is generally the most active in Southern California, but the uncertainty that prevailed in 2020 slowed transaction activity. Much of that uncertainty has lifted, and investors are returning to the market in search of acquisition opportunities. Pricing is likely to push higher as rents rise and cap rates compress. Per-unit prices began to trend higher at the end of the third quarter, a trend that appears to have continued in the early stages of the fourth quarter.

## Employment Forecast



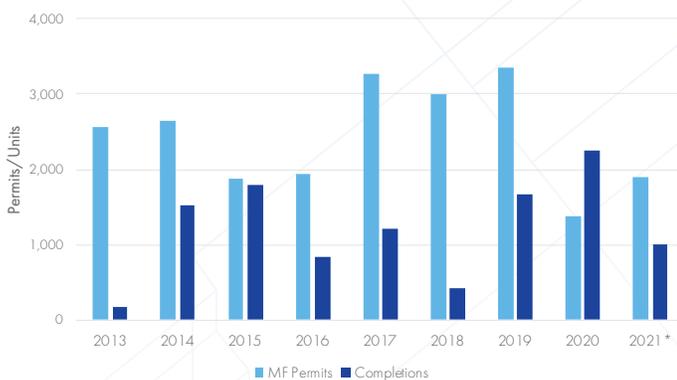
\* Year End Forecast  
Sources: Northmarq, Bureau of Labor Statistics

## Rent Forecast



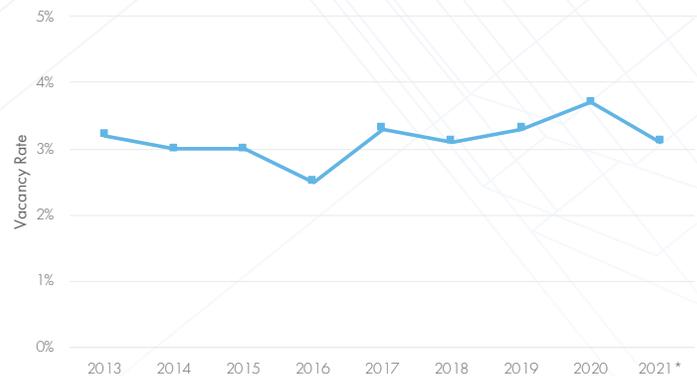
\* Year End Forecast  
Sources: Northmarq, Reis

## Construction & Permitting Forecast



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

## Vacancy Forecast



\* Year End Forecast  
Sources: Northmarq, Reis



For more information,  
please contact:

**Shane Shafer**

SVP, Managing Director—Investment Sales  
949.270.3690  
sshaffer@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

## About Northmarq

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 700 employees, loan servicing volume approaching \$70 billion, and \$30+ billion in transaction volume.