Northmarq

MARKET INSIGHTS

Vacancy remains tight, but rents slow to gain traction

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	6,773
UNITS DELIVERED	1,738

MARKET FUNDAMENTALS

VACANCY RATE	3.3%
YEAR-OVER-YEAR CHANGE	+40bps
ASKING RENTS	$1,822
YEAR-OVER-YEAR CHANGE	-1.7%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$234,400

Inland Empire Multifamily
3Q 2023

HIGHLIGHTS

- Property performance metrics in the Inland Empire softened a bit during the third quarter as asking rents ticked lower and vacancy rose. The pace of supply growth is expected to gain momentum in the coming periods with projects totaling 6,773 units currently under construction.
- Local vacancy ticked up 20 basis points in the last three months to 3.3 percent. Year over year, the rate rose by 40 basis points.
- Asking rents dipped 0.4 percent during the third quarter to $1,822 per month. Apartment rents have been inconsistent from quarter to quarter; rents are down 1.7 percent from one year ago.
- The multifamily investment market in the Inland Empire has been fairly quiet to this point in the year with only a handful of transactions closing in recent periods. The median sales price year to date is $234,400 per unit and cap rates are averaging close to 5 percent.

INLAND EMPIRE MULTIFAMILY MARKET OVERVIEW

Property fundamentals in the Inland Empire softened during the third quarter as vacancies ticked higher and asking rents dipped. While net absorption remains positive, the pace of move-ins trailed an increased volume of new supply in recent months, putting some modest upward pressure on local vacancy. Developers have completed more than 1,700 units to this point in the year with another 6,770 units currently in the pipeline. Some of the most active areas for new development include Murrieta, Ontario, and Rancho Cucamonga. Operators pulled back on rents in the last three months and asking rents have now declined in three out of the last four quarters. Still, vacancy levels have been tight enough to limit rent declines and the use of concessions.

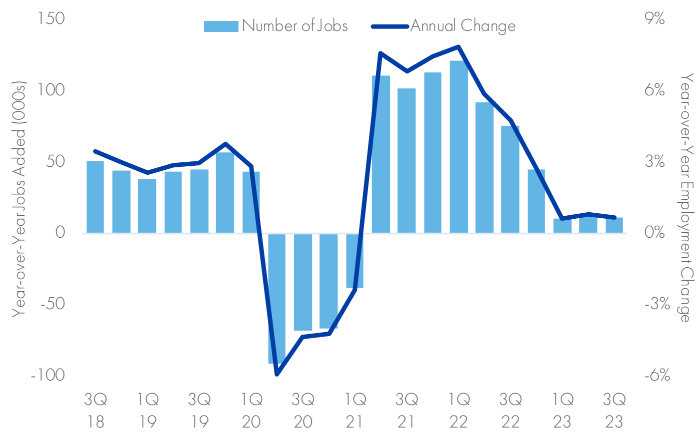
The multifamily investment market in the Inland Empire has slowed significantly in recent periods due to greater uncertainty and heightened costs of capital. Although sales volume held mostly steady from the second quarter to the third quarter, with just a handful of deals in each period, transaction activity so far in 2023 is well below last year's levels. The number of sales year to date has fallen by more than 50 percent from the same period in 2022. The local investment market is largely fueled by private investors, who accounted for roughly 60 percent of the transaction mix to this point in the year. With fewer properties trading, sales prices in the Inland Empire remain below last year's spike. The median sales price year to date is $234,400 per unit, while cap rates are averaging approximately 5 percent.

EMPLOYMENT

- The pace of job growth in the Inland Empire accelerated during the third quarter with a gain of 8,700 positions in the last three months. Year over year, local employers added 11,100 workers to payrolls, a gain of 0.7 percent.
- The healthcare and social assistance sector continues to be a significant source of growth in the Inland Empire. During the past 12 months, this sector added 12,900 jobs throughout the region, increasing by 5.2 percent.
- Reyes Coca-Cola Bottling recently announced plans for an expansion of its operations at its current site in Rancho Cucamonga. The existing 125,000-square-foot facility will be demolished and rebuilt into a 620,000-square-foot facility for manufacturing and bottling. The $500 million transformation is expected to bring hundreds of new manufacturing jobs to the region upon completion in 2026.
- **FORECAST:** Annual job growth is forecast to taper off somewhat this year. Total employment in the Inland Empire is forecast to expand by 17,000 workers in 2023, a 1 percent gain.

Year over year, local employers added 11,100 workers to payrolls.

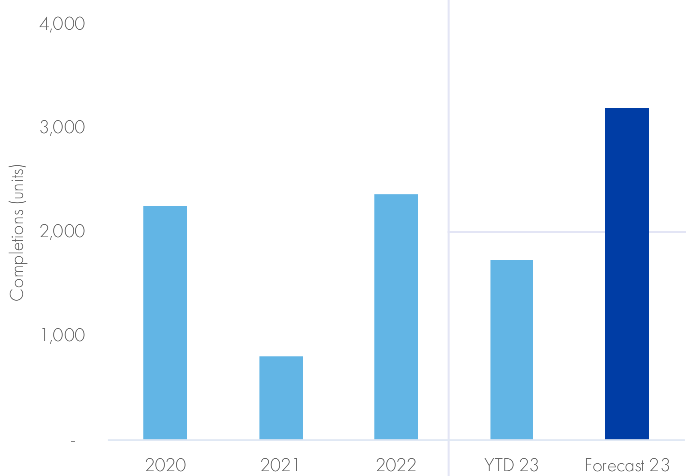
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling 6,773 units are currently under construction.

DEVELOPMENT TRENDS



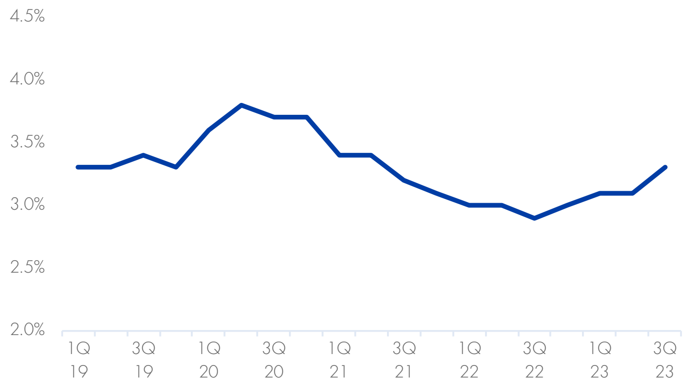
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Apartment completions in the Inland Empire gained momentum with the delivery of roughly 1,075 units during the third quarter. Projects totaling more than 1,700 units have come online to this point in the year with a handful of large developments slated for delivery before year end.
- Projects totaling 6,773 units are currently under construction, up 56 percent from one year ago. While developers are active throughout the region, there is a concentration of new development around Murrieta with a steady flow of projects scheduled to come online in this area through the end of the year and into 2024.
- Multifamily permitting ramped up during the third quarter as developers pulled permits for roughly 1,940 units in the last three months. More than 6,200 permits have been issued year to date, nearly tripling levels recorded during the same period last year.
- **FORECAST:** Multifamily developers are projected to continue to bring new units online at an active pace as this year comes to a close. Projects totaling more than 3,200 units are expected to be delivered in 2023.

Year over year, the local vacancy rate increased by 40 basis points.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

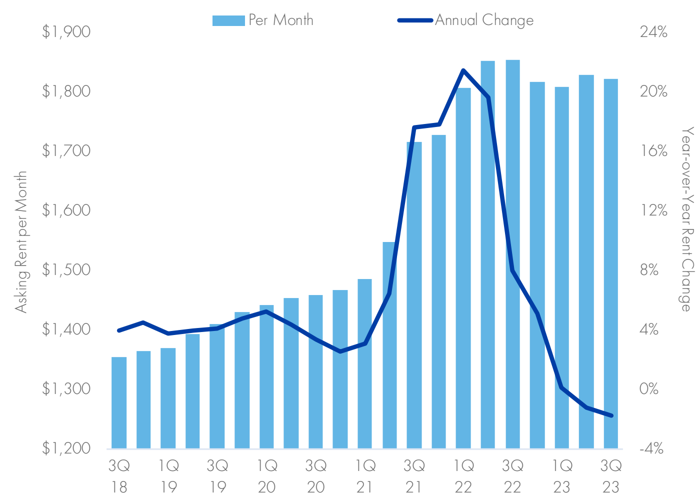
- Vacancy levels ticked slightly higher in the Inland Empire during the third quarter, rising 20 basis points to 3.3 percent. Year over year, the local vacancy rate increased by 40 basis points.
- Vacancy conditions in the Riverside-San Bernardino region are consistently tight across property classes. In the Class A segments, vacancy finished the third quarter at 3.2 percent while the combined rate in Class B and Class C properties was 3.4 percent.
- The Palm Springs/Palm Desert submarket continues to benefit from steady renter demand and limited supply growth. Vacancy in the submarket fell 10 basis points during the past 12 months to 0.9 percent. Since 2015, vacancy in Palm Springs/Palm Desert has averaged 2.8 percent.
- **FORECAST:** Area vacancy should continue to inch higher through the end of the year, fueled in part by an accelerating pace of supply growth. Vacancy in the Inland Empire is projected to end 2023 at 3.5 percent, up 50 basis points for the full year.

RENTS

- Asking rents in the Inland Empire declined in three out of the past four quarters, including a 0.4 percent dip to $1,822 per month during the third quarter. Declines have been modest; year over year, rents have fallen 1.7 percent.
- While rents inched lower in nearly every submarket during the past year, apartment rents in South Ontario/Chino held steady. This submarket has the most expensive rents in the region at $2,428 per month, matching its figure from one year ago.
- Prior to spiking by nearly 18 percent in 2021, annual rent growth in the Inland Empire averaged 4.4 percent from 2015 to 2020.
- **FORECAST:** Rents in the Inland Empire are on pace to end 2023 only slightly higher than at the beginning of the year. Asking rents are projected to finish 2023 at around $1,830 per month, a 0.7 percent annual increase.

Year over year, rents have fallen 1.7 percent.

RENT TRENDS



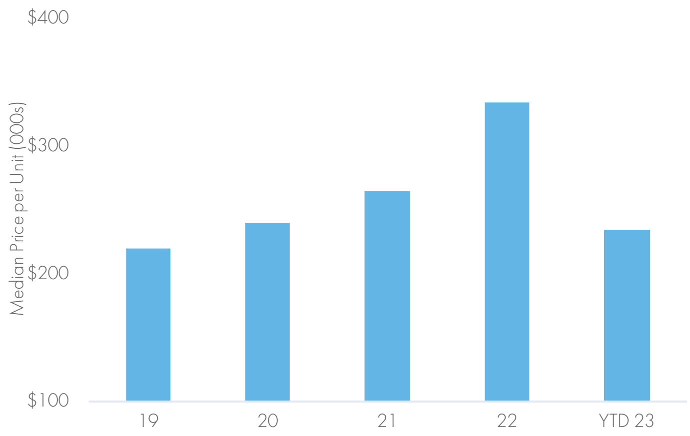
Sources: Northmarq, REIS

MULTIFAMILY SALES

- The multifamily investment market in the Inland Empire remains light with just a handful of deals closing during the third quarter. Transaction volume year to date fell more than 50 percent from the same period last year.
- Fewer properties are trading, and older, Class C properties are accounting for a greater share of the overall transaction mix, pushing prices lower. The median sales price thus far in 2023 is $234,400 per unit, down nearly 30 percent from last year's peak.
- Year to date, Class C properties have represented more than 60 percent of the total properties that have sold in the Inland Empire. This is a considerable spike from prior years; from 2019-2022, Class C properties totaled just 29 percent of the total transaction mix, while more than half of all transactions involved Class B buildings.
- Cap rates continued to trend higher in the few properties that changed hands during the third quarter. Cap rates averaged around 5 percent in the last three months after averaging closer to 4 percent at the start of the year.

Cap rates averaged around 5 percent in the last three months.

INVESTMENT TRENDS



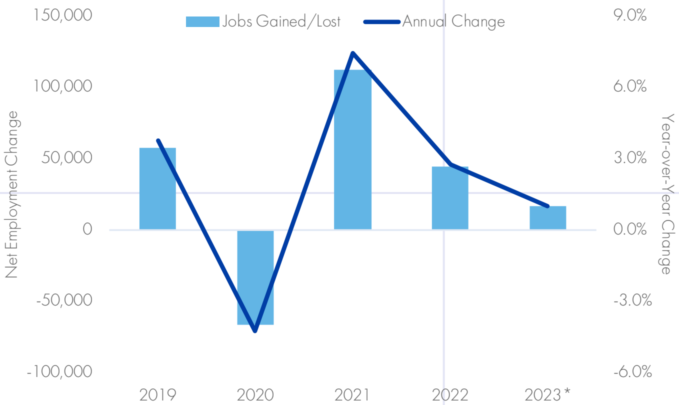
Sources: Northmarq, CoStar

LOOKING AHEAD

Although operating conditions have been mostly flat to this point in the year, the Inland Empire will maintain its status as one of the stronger-performing markets in Southern California in the coming years. While vacancy conditions are slightly higher than in prior periods months, the current rate of 3.3 percent is well below the national average, and the Inland Empire continues to record in-migration from more expensive neighboring counties. Going forward, vacancy conditions should level off in the mid-3 percent range, even as developers continue to bring new projects online. A consistent pace of renter demand will support moderate rent growth in the near future.

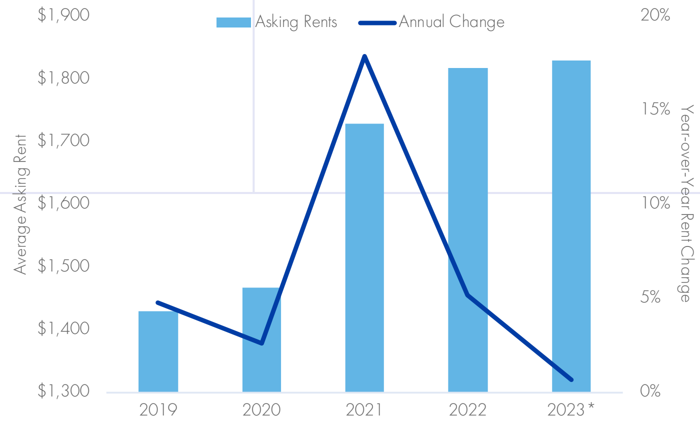
Apartment sales activity has been light to this point in the year as transaction volume continues to be restricted by a challenging borrowing environment. Sales velocity in the Inland Empire should remain limited through the end of 2023, especially as area properties struggle to implement any significant rent increases. As interest rates begin to trend lower, investment activity should gain momentum, particularly as loans approach maturity and owners are forced to take some action. While Class C assets accounted for the largest share of the transaction mix thus far in 2023, activity is expected to pick up in the sale of Class A and Class B properties, as new supply enters the market at a healthy pace.

EMPLOYMENT FORECAST



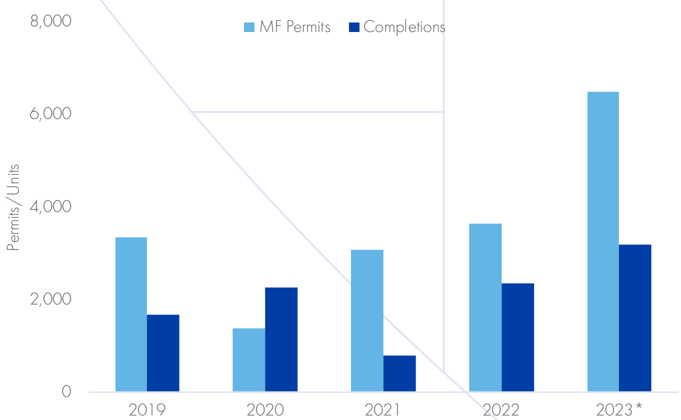
* *Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



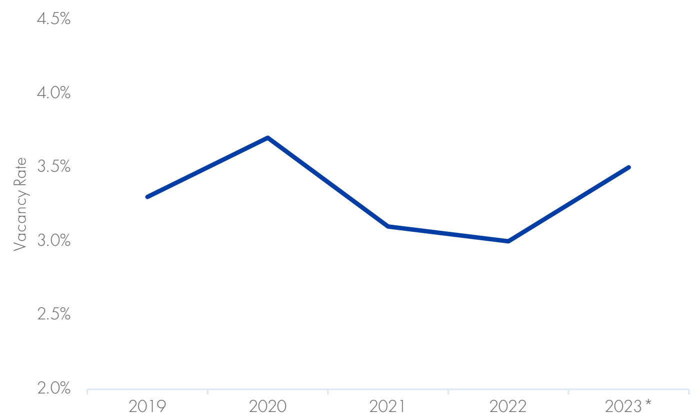
* *Year End Forecast*
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* *Year End Forecast*
Sources: Northmarq, REIS

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