Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	6,887
UNITS DELIVERED	662

MARKET FUNDAMENTALS

VACANCY RATE	3.1%
YEAR-OVER-YEAR CHANGE	-10bps
ASKING RENTS	$1,830
YEAR-OVER-YEAR CHANGE	-1.2%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$240,600

Inland Empire Multifamily
2Q 2023

MARKET INSIGHTS

Consistently tight vacancies supporting new development

HIGHLIGHTS

- The Inland Empire multifamily market posted strong performance during the second quarter with asking rents on the rise and vacancy holding steady.
- Vacancy conditions were stable during the second quarter, finishing the period at 3.1 percent. Year over year, the local vacancy rate dipped by 10 basis points.
- Asking rents pushed higher during the second quarter, rising 1.1 percent to $1,830 per month. Rents should trend higher in the second half.
- Multifamily sales velocity in the Inland Empire remains limited, although more properties sold in the second quarter than during the first three months of the year. Cap rates averaged 4.5 percent during the second quarter.

INLAND EMPIRE MULTIFAMILY MARKET OVERVIEW

Multifamily property fundamentals in the Inland Empire improved during the second quarter. While deliveries have been limited to this point in the year, the pace of completions is expected to pick up in the second half of 2023. Projects totaling more than 6,800 units are currently in the construction pipeline, with a concentration of new development around Murrieta, Rancho Cucamonga, and Fontana. Developers are responding to the continued demand for housing in the high-growth region. There are a few undersupplied submarkets that are recording vacancy rates below 2 percent including Upland and Palm Springs/Palm Desert. Conditions will likely remain tight in these areas, with construction largely concentrated in more densely populated submarkets.

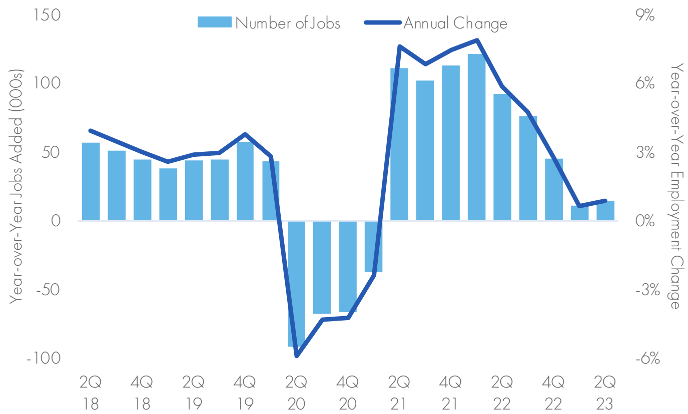
The local multifamily investment market has been fairly quiet to this point in the year with only a handful of transactions closing in recent periods. Nearly all of the sales activity in the last six months was concentrated in the northern half of the Inland Empire, with deals in Ontario, Riverside, and San Bernadino. Transactions to this point in the year have consisted of a few Class B properties and several Class C assets. The mix of properties that has sold is resulting in lower per-unit prices; year to date, the median price is $240,600 per unit, after the figure topped $300,000 per unit in 2022. Cap rates continue to trend higher, averaging around 4.5 percent during the second quarter, about 100 basis points higher than one year ago.

EMPLOYMENT

- The pace of job growth in the Inland Empire has slowed from the rapid gains that were recorded in 2022. During the first half of this year, employers have added approximately 5,000 net new jobs in the region. Year over year, total employment grew by 14,100 positions, a gain of 0.9 percent.
- While some of the region's core industries have recorded a slower pace of growth in recent periods, the healthcare and social assistance sector continues to be a leading source of expansion in the Inland Empire. During the past 12 months, this sector added 13,000 jobs throughout the region, a 5.3 percent increase.
- The professional and business services sector has been expanding in recent years and continues to record gains. Year over year through the second quarter, 4,500 professional jobs have been added in the region, a 2.6 percent advance. In the past five years, employment in the sector has expanded by 25 percent with the addition of more than 36,000 net new jobs.
- **FORECAST:** Area employers are forecast to grow payrolls by approximately 15,000 positions in 2023, a 0.9 percent rate of growth.

Year over year, employment grew by 14,100 positions.

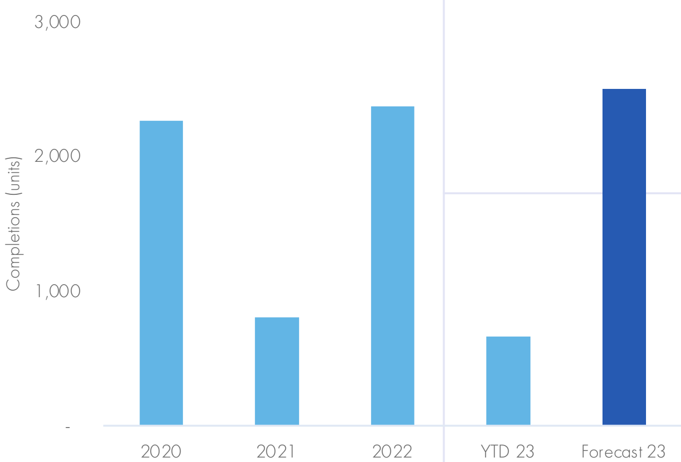
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling 6,887 units are under construction.

DEVELOPMENT TRENDS



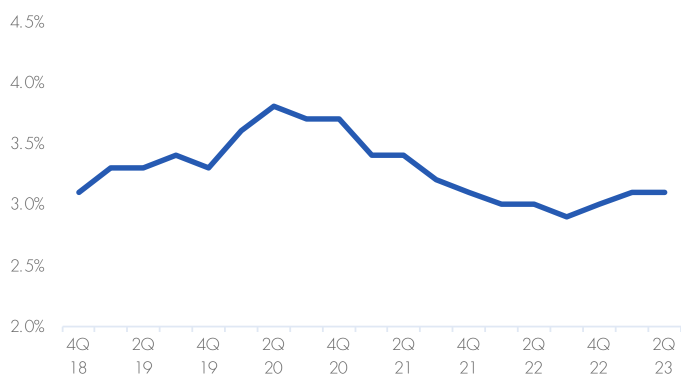
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Apartment completions in the Inland Empire have been fairly limited to this point with 660 units coming online year to date. The pace of deliveries is scheduled to accelerate in the coming periods and completions in 2023 should closely track levels from last year, when more than 2,300 units came online.
- Projects totaling 6,887 units are currently under construction in the Inland Empire, up 42 percent from one year ago. While builders are active throughout the region, new development is concentrated around Murrieta, Rancho Cucamonga, and Fontana.
- Multifamily permitting activity has been elevated through the first half of this year, even as financing new projects is proving more challenging than in recent years. Permits for nearly 4,300 multifamily units have been issued through the first half of 2023, already outpacing the full-year total in 2022.
- **FORECAST:** Apartment deliveries are expected to gain momentum in the second half of the year with projects totaling roughly 2,500 units slated to come online in 2023. Since 2015, completions have averaged approximately 1,400 units per year, a figure that has failed to keep pace with demand growth.

Year over year, area vacancy improved by 10 basis points.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

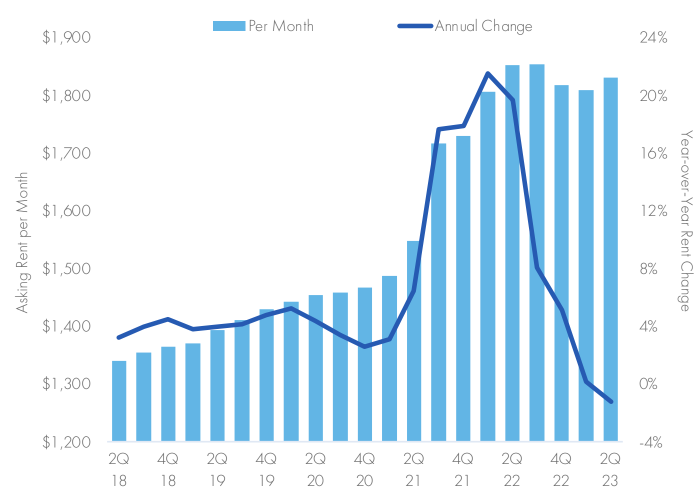
- Absorption levels in the Inland Empire improved from the first quarter to the second quarter, helping keep the vacancy rate steady at 3.1 percent. Small quarterly movements in the local vacancy rate are common; the rate has not declined or risen by more than 10 basis points in a given quarter since mid-2021.
- Year over year, average area vacancy improved by 10 basis points. The greatest improvement has been posted in Class A properties, where the rate has tightened by 130 basis points, ending the second quarter at just 3 percent.
- The Palm Springs/Palm Desert submarket is benefitting from steady renter demand and limited supply growth. Vacancy in the submarket fell 20 basis points during the past 12 months to 1 percent. Since 2015, vacancy in Palm Springs/Palm Desert has averaged 2.8 percent.
- **FORECAST:** Vacancy is projected to inch higher in the coming quarters as construction activity gains momentum. Area vacancy is forecast to end 2023 at around 3.3 percent, up 30 basis points for the full year.

RENTS

- Apartment rents in the Inland Empire trended higher during the second quarter, after falling for two consecutive periods. Asking rents rose 1.1 percent in the last three months to $1,830 per month.
- Despite the recent uptick, current rents are slightly lower than levels from one year ago. During the 12-month period that ended in the second quarter, asking rents in the Inland Empire declined by 1.2 percent.
- Rents in the Class A segment appear to have settled in at a new plateau. Class A asking rents ended the second quarter at $2,190 per month, 1.1 percent lower than one year earlier. As recently as early 2021, Class A rents were closer to $1,750 per month.
- **FORECAST:** Apartment rents in the Inland Empire should continue to rise in the second half of the year. Average asking rents are expected to advance 2 percent in 2023, ending the year at around $1,855 per month.

Asking rents rose 1.1 percent in the last three months.

RENT TRENDS



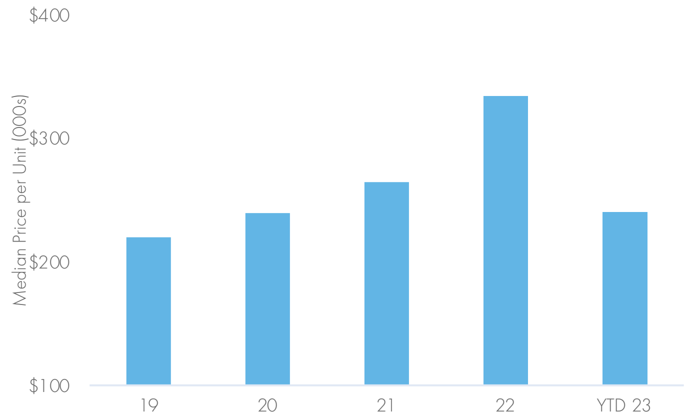
Sources: Northmarq, REIS

MULTIFAMILY SALES

- While deal volume picked up slightly from the first quarter to the second quarter, investment activity remains fairly limited in the Inland Empire. The number of transactions in the first half of 2023 is down roughly 50 percent from the second half of last year. Average transaction sizes increased during the second quarter.
- The median sales price year to date is $240,600 per unit, down 28 percent from last year's median. In the second quarter, prices rose; the median price was over $323,000 per unit in the handful of transactions that closed during the past three months.
- Cap rates continued to tick higher in recent months, averaging 4.5 percent during the second quarter. Cap rates are up about 40 basis points from earlier this year.

Cap rates averaged 4.5 percent during the second quarter.

INVESTMENT TRENDS



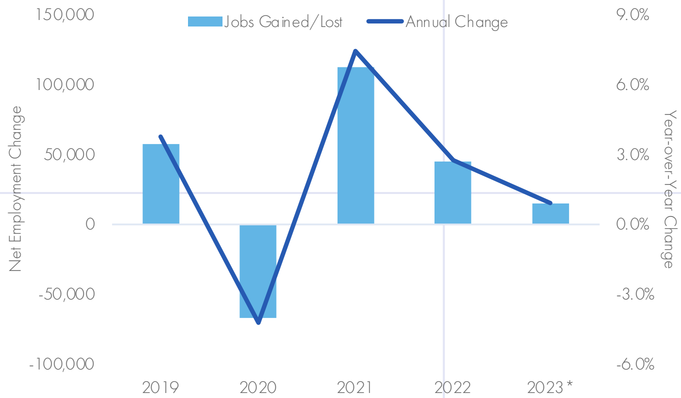
Sources: Northmarq, CoStar

LOOKING AHEAD

After a slow first half, the pace of apartment completions is expected to pick up in the remainder of 2023. Projects totaling approximately 2,500 units are slated to come online this year, closely tracking levels recorded in 2022. While the pace of construction activity will gain momentum, the Inland Empire routinely records some of the most stable vacancy conditions in the country, a trend that is likely to remain in place in the coming periods. Vacancy during the past decade has averaged 3.1 percent, and the rate is expected to end this year a bit higher than the long-term trend. The market's continued stability should support additional rent growth, building on the modest gains recorded during the second quarter.

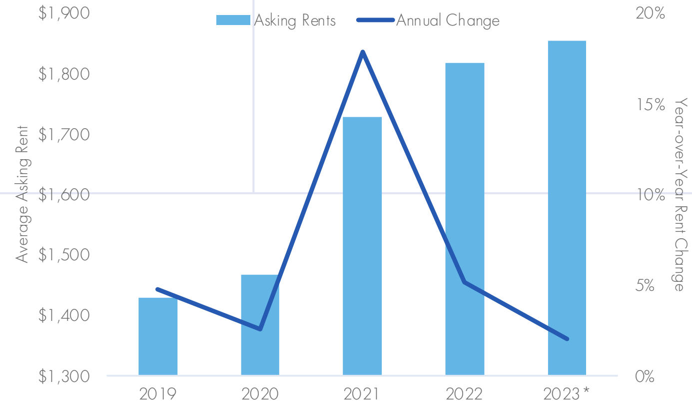
Multifamily transaction activity has been limited to this point in the year as deal volume continues to be restricted by elevated interest rates. While the capital markets environment may continue to make acquisitions more challenging in the near term, investors will ultimately be drawn to the Inland Empire's consistently high occupancy rates, particularly in an environment where rapid additions to inventory are driving vacancy rates higher throughout much of the country. Cap rates have crept higher in recent quarters and may record additional upticks through the remainder of the year. Typically, investors are drawn to the region for its healthy labor market and steady population growth, trends that should remain in place for the next several years.

EMPLOYMENT FORECAST



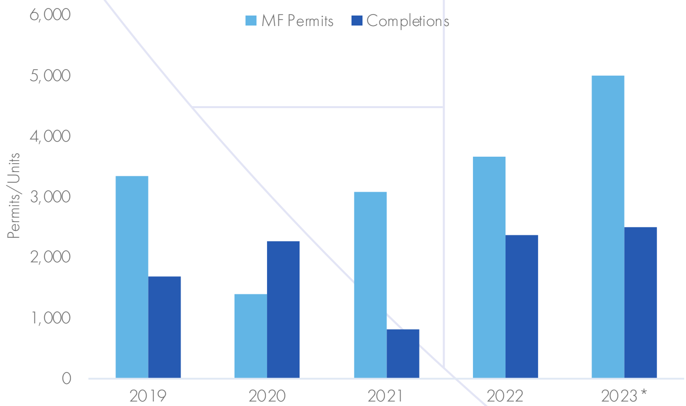
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



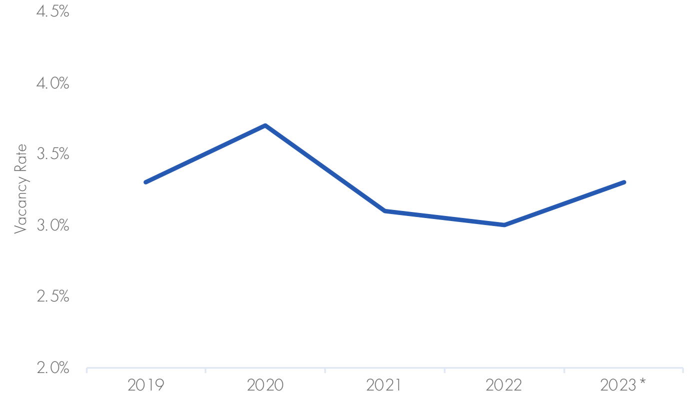
* Year End Forecast
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, REIS

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ABOUT NORTHMARQ

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