

Inland Empire Multifamily

Additional Vacancy Tightening Likely Due to Modest Supply Growth

Highlights

- > Tight vacancies and rising rents highlighted operating conditions in the Inland Empire multifamily market during the second quarter. While renter demand for units is gaining momentum, inventory growth from new construction is minimal, which will support a tightening vacancy rate in the second half.
- > Vacancy in the Inland Empire remained unchanged from the first quarter to the second quarter, holding steady at 3.4 percent. Year over year, the rate has declined 40 basis points.
- > The pace of rent growth accelerated during the second quarter. Asking rents rose more than 4 percent in the period, reaching \$1,548 per month. Year over year, rents are up 6.5 percent.
- > Prices rose in the second quarter. The median price year to date is nearly \$242,700 per unit, but the median price in sales during the second quarter approached \$320,000 per unit. A few transactions closed around \$400,000 per unit.

Inland Empire Multifamily Market Overview

The Inland Empire multifamily market posted a strong performance during the second quarter with rents jumping and vacancy holding steady. Renter demand was fueled by a rapid pace of job growth as the economy has reopened. The Inland Empire is outperforming most other large metro areas in California. Apartment vacancy has remained tight and should tick lower in the coming quarters, as renter demand gains momentum, and new inventory growth is on pace to be minimal in the second half of 2021. Absorption levels closely tracked the pace of new development in the first half of the year but should accelerate as the local economy gains traction.

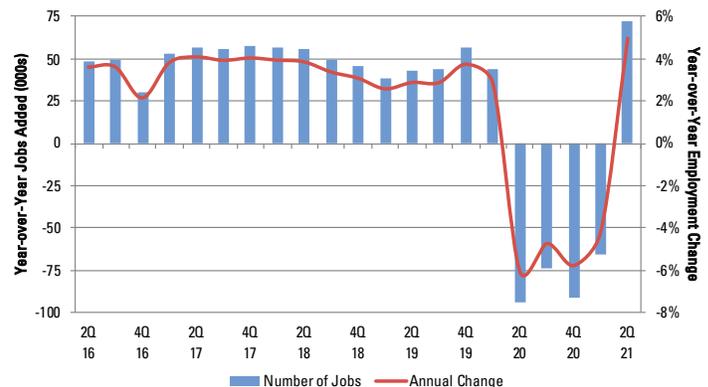
Q2 Snapshot	Inland Empire Market
	Market Fundamentals
	Vacancy 3.4%
	- Year Over Year Change -40 bps
	Asking Rent \$1,548
	- Year Over Year Change +6.5%
	Transaction Activity
	Median Sales Price Per Unit (YTD) \$242,700
	Cap Rates (Avg YTD) 4.5%
	Construction Activity
	Units Under Construction 952
	Units Delivered YTD 340

Sales of apartment properties have been modest to this point in 2021, although more properties traded in the second quarter than sold at the beginning of the year, and sales velocity in the first half of the year is ahead of the 2020 pace. For the first half of the year, prices closely tracked levels from 2020, but the median price surged in the second quarter and per-unit prices will likely advance in the second half. Cap rates have compressed to this point, averaging approximately 4.5 percent.

Employment

- > The labor market in the Inland Empire posted strong numbers through the first half of the year. Employers added more than 19,000 jobs during the second quarter, and job growth for the first half topped 40,000 positions. Year over year, employers have expanded payrolls by nearly 5 percent.
- > The health care and social assistance industry has proven its stability during the past year. This sector added more than 5,700 jobs during the second quarter, up 7.2 percent year over year.
- > Warehousing and distribution employment continues to expand at a rapid pace. In the past year, total employment in the sector expanded by 10 percent with the addition of more than 20,000 jobs. Furniture distributor Modway Inc. has announced plans to open a new distribution center in Hesperia. This 1 million-square-foot industrial building will bring 200 jobs to the area by this fall.
- > **Forecast:** The employment market is expected to continue to add workers back at a healthy pace. Total employment is expected to grow 4.7 percent during 2021 with the addition of 70,000 jobs.

Employment Overview



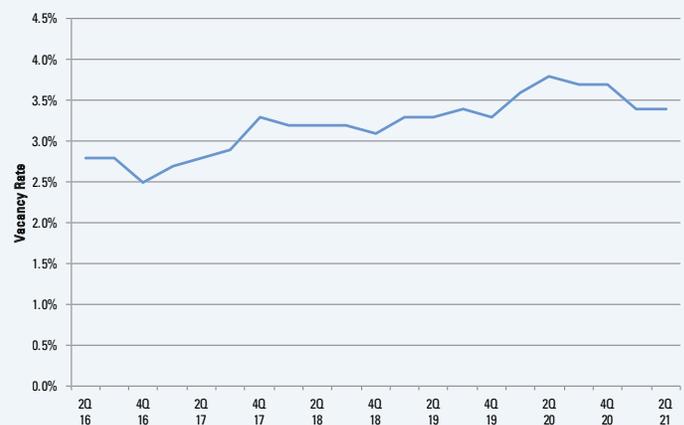
Sources: NorthMarq, Bureau of Labor Statistics

Year over year, employers have expanded payrolls by nearly 5 percent

Vacancy

- > After dipping during the first quarter, the local vacancy rate held steady at 3.4 percent in the second quarter. Vacancy has either remained steady or tightened in each of the past four quarters, and the rate has not ticked higher since the second quarter of 2020.
- > Year over year, vacancy has tightened 40 basis points. The rate has maintained tight operating conditions for the past few years; vacancy in the Inland Empire has averaged 3.4 percent since the end of 2017.
- > The Class A segment of the market is recording the greatest vacancy improvement, a trend that is forecast to continue in the second half of this year. Class A vacancy has declined 90 basis points in the past year, ending the second quarter at 4.4 percent.
- > **Forecast:** Multifamily vacancy in the Inland Empire is forecast to continue to tighten during the remainder of the year. The local vacancy rate is expected to end the year at 3 percent, down 70 basis points from the end of 2020.

Vacancy Trends



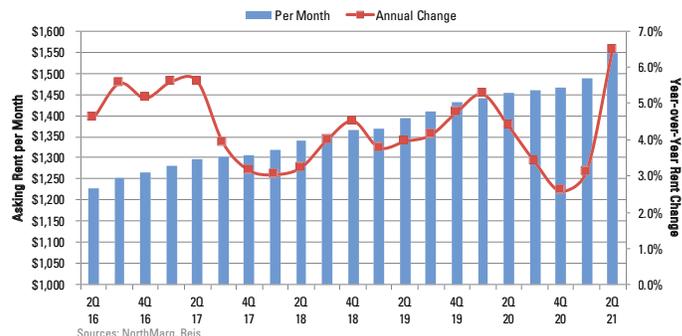
Sources: NorthMarq, Reis

Year over year, vacancy has tightened 40 basis points

Rents

- > With vacancies low and renter demand picking up as the economy strengthens, rents are trending higher at an accelerated pace. Asking rents continued to rise during the second quarter, reaching \$1,548 per month, up more than 4 percent from the first quarter.
- > Apartment rents in the Inland Empire jumped 6.5 percent year over year, the largest annual growth since 2015. Further increases are forecast for the second half of 2021.
- > Class A asking rents advanced 2.7 percent during the second quarter, reaching \$1,760 per month. Year over year, rent growth in Class A properties totaled more than 6 percent.
- > **Forecast:** As renter demand increases, asking rents will continue to rise. Apartment rents are forecast to advance 8.7 percent in 2021, reaching nearly \$1,600 per month.

Rent Trends

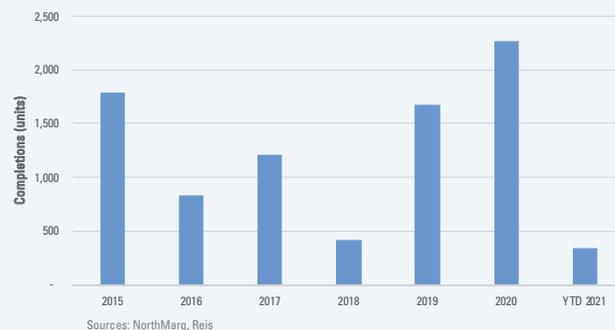


Apartment rents in the Inland Empire jumped 6.5 percent year over year

Development and Permitting

- > After minimal development activity during the first quarter, apartment deliveries picked up slightly in the second quarter. Year to date, a total of only 340 units have come online in the Inland Empire, down 80 percent from the total inventory growth that occurred in the first half of 2020.
- > The development pipeline throughout the region has thinned since the beginning of last year. Currently, around 950 units are under construction, down more than 40 percent from one year ago.
- > Multifamily permitting accelerated slightly during the second quarter as developers pulled permits for nearly 410 units, up 4 percent from last quarter. Permitting activity in the first half was down approximately 35 percent from the region's five-year average and will likely accelerate as renter demand gains momentum.
- > **Forecast:** After two straight years of fairly active deliveries, apartment construction is on pace to slow in 2021. Projects totaling around 900 units are forecast to be delivered by the end of the year, down from nearly 2,300 units that came online in 2020.

Development Trends

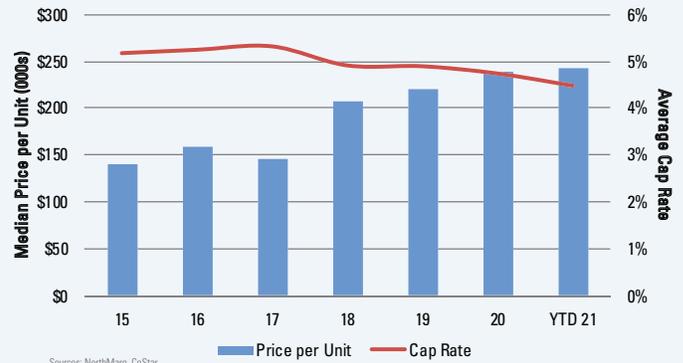


Year to date, a total of only 340 units have come online

Multifamily Sales

- > Sales activity during the second quarter outpaced levels from the first three months of the year by approximately 25 percent. Transaction activity in the first half was ahead of the pace recorded last year by more than 15 percent.
- > The median price thus far in 2021 is nearly \$242,700 per unit, up slightly from the median price in 2020. Prices rose during the second quarter; the median price in transactions that closed in the second quarter was nearly \$320,000 per unit, including a few transactions that closed at nearly \$400,000 per unit.
- > Cap rates have compressed in 2021, and further declines are likely as investors track the market's strong property performance. Cap rates have averaged 4.5 percent in sales that have closed year to date.

Investment Trends



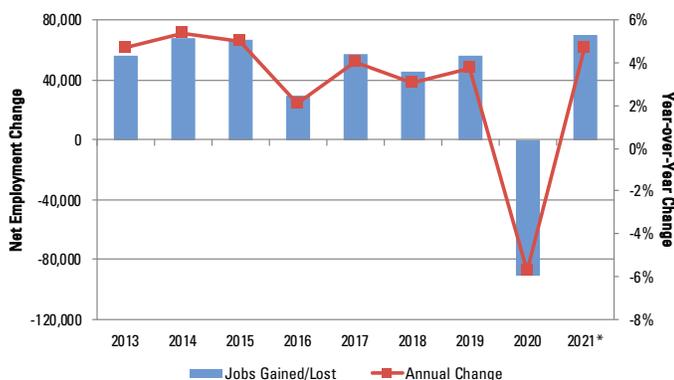
The median price in transactions that closed in the second quarter was nearly \$320,000 per unit

Looking Ahead

The multifamily market in the Inland Empire is forecast to strengthen in the second half of this year, as landlords leverage tight operating conditions and an accelerating pace of economic growth to fuel rent increases. The pace of rent gains quickened in the second quarter, and further increases are anticipated in the second half of the year. Vacancy has remained low for the past several years, but the rate should tighten even further in the second half of 2021, due to a minimal amount of new development that will not be able to keep pace with forecast demand growth.

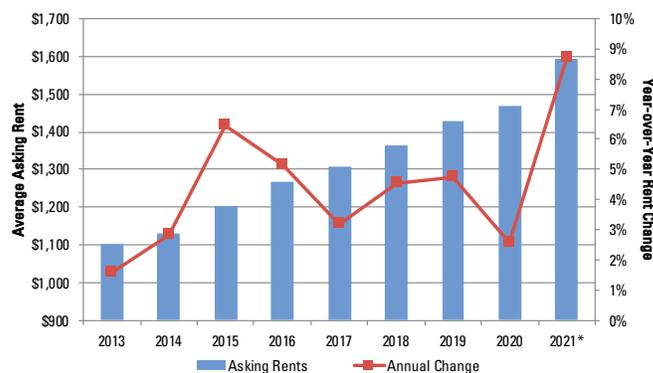
The investment market is expected to gain momentum in the second half of this year, fueled by tightening vacancies and rising rents. Early signs of this strengthening have emerged in recent months. While the number of properties that are changing hands has been limited to this point, the pace accelerated in the second quarter. In addition, there was a sharp rise in pricing, and cap rates crept lower. As the competition for area properties intensifies, continued price gains and cap rate compression are likely in the second half of the year.

Employment Forecast



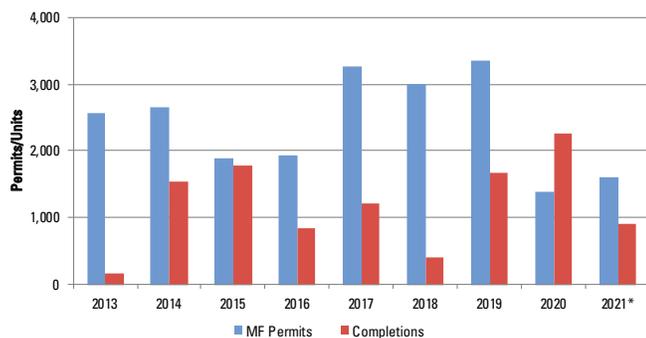
* Year-End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



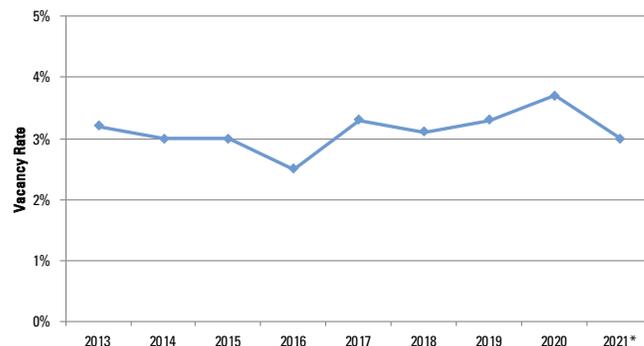
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of more than \$16 billion, loan servicing portfolio of more than \$65 billion and the multi-year tenure of our nearly 600 people.

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