Market Insights

Inland Empire Multifamily 4Q 2021

Northmarq

Construction Activity

4,055

Units under construction

804

Units delivered (YTD)

Market Fundamentals

3.1%

Vacancy

-60bps | Year over year change

$1,729

Asking Rent

+17.9% | Year over year change

Transaction Activity

$264,800

Median sales price per unit (YTD)

Rent Spike Fuels Accelerating Sales Velocity

Highlights

- The Inland Empire multifamily market concluded a year of rapid improvement in 2021 with additional strengthening in the fourth quarter. Vacancy tightened and rents rose. The improving market fundamentals fueled accelerating investment activity and steep per-unit price appreciation.
- Vacancies tightened during the final quarter, dropping 10 basis points to 3.1 percent. For the full year, the rate declined 60 basis points.
- Asking rents reached record highs during the fourth quarter, ending the period at $1,729 per month. Average rents in the Inland Empire spiked 17.9 percent for the year.
- The investment market strengthened throughout 2021 with the greatest volume occurring in the fourth quarter. Cap rates compressed and prices rose, due to improving property fundamentals and intensifying investor demand.

Inland Empire Multifamily Market Overview

Following two quarters of particularly strong performance during the middle part of the year, the Inland Empire multifamily market closed 2021 on an upswing. The market's vacancy rate tightened in the final three months of the year, and rents crept higher. Some of the impressive performance in 2021 was attributable to a supply/demand imbalance. Renter demand for units accelerated throughout the year, with the economy reopening and area employment rebounding, particularly within the region's core transportation and distribution industry. On the supply side, the pace of deliveries slowed after permitting activity stalled in 2020. As a result of a rising pool of renters pursuing a decreasing supply of available units, rents recorded their strongest gains on record in 2021. Supply and demand should be closer to equilibrium in the coming year.

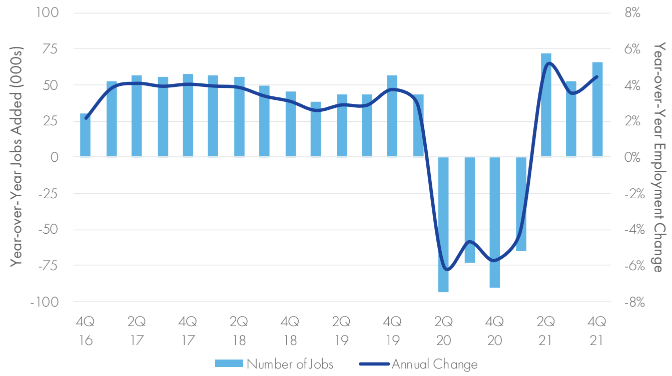
The strong operational performance translated directly to the investment market in 2021, particularly during the fourth quarter when sales velocity increased, cap rates compressed, and prices spiked. Although transactions occurred throughout the entire Inland Empire during the course of the year, nearly half of all the sales during 2021 took place in the Riverside/Corona submarket. Cap rates in the market, which were as high as 5 percent a few years ago, compressed into the low-3 percent range by the end of 2021 as investors stepped up acquisition activity. The positive market sentiment was illustrated by steep price appreciation late in the year; the median price in transactions that closed during the fourth quarter exceeded $340,000 per unit. As the new year begins, it may take a few quarters for buyers and sellers to adjust to the new pricing environment.

Employment

- The local labor market posted a recovery during 2021, although the strongest gains were recorded in the first half of the year. In the fourth quarter, area employers added more than 11,100 workers to payrolls, bringing the total for the full year to more than 65,000 jobs. The annual employment growth rate for 2021 reached 4.4 percent.
- The trade, transportation, and utilities sector outperformed most other industries during 2021, as the Inland Empire has strengthened its position as one of the best-performing industrial hubs in the nation. In 2021, this sector added approximately 17,000 net new jobs and expanded by nearly 4 percent.
- A national developer recently purchased a 54.4-acre empty lot in Ontario Ranch with plans to build a 1-million-square-foot logistics center at the site. This development will bring more than 1,000 jobs to the region. This is one of more than 20 industrial developments topping 1 million square feet that are either under construction or planned, and one of the few large industrial projects in the Ontario area.
- **Forecast:** The local employment market is forecast to continue to recover in the coming quarters and surpass its pre-pandemic peak by the end of 2022. Employers are expected to expand payrolls by nearly 3 percent in the coming year, adding approximately 46,000 jobs.

> Total employment expanded 4.4 percent in 2021.

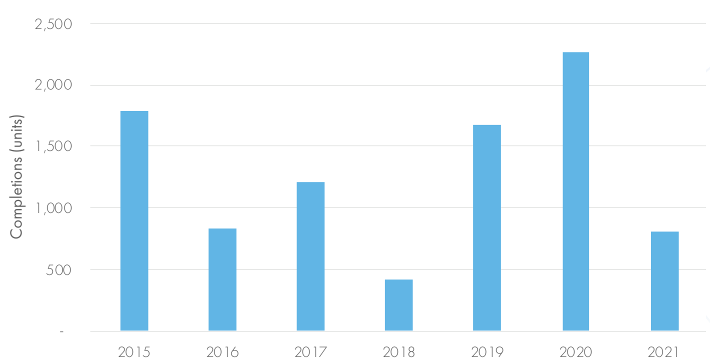
Employment Overview



Sources: Northmarq, Bureau of Labor Statistics

> More than 4,000 units are currently under construction.

Development Trends



Sources: Northmarq, Reis

Development and Permitting

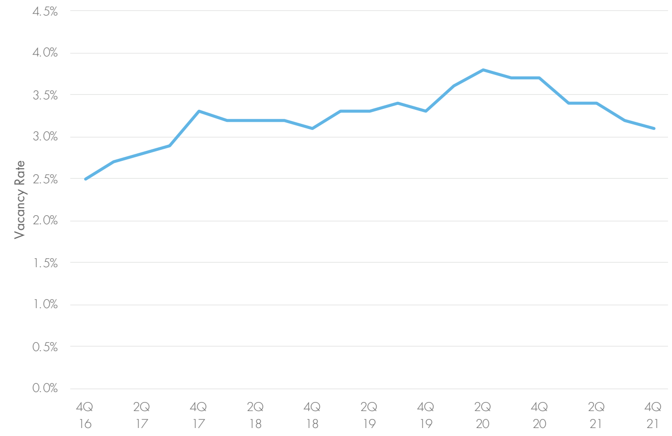
- The pace of apartment completions slowed during 2021, as projects totaling only 804 units came online during the year, after more than 2,200 units were delivered in 2020.
- Despite a recent slowdown in completions of new units, the number of projects in the future development pipeline swelled in the second half of 2021, which will bring new inventory to the market in the coming periods. More than 4,000 units were under construction at year end, more than tripling the total from one year earlier. Two projects in the Ontario/Rancho Cucamonga submarket account for nearly 1,800 units.
- Permitting spiked during the final quarter of 2021, as developers pulled permits for more than 1,700 multifamily units in the final few months of the year. Activity cooled in 2020, but permitting has since returned to more elevated levels, reaching approximately 3,180 units for the year.
- **Forecast:** After the recent uptick in units under construction, apartment deliveries are forecast to accelerate in the year ahead. Projects totaling approximately 3,000 units are expected to come online in 2022.

Vacancy

- With demand elevated and supply growth minimal, apartment vacancy in the Inland Empire continued to tighten during the fourth quarter. The rate dropped 10 basis points to 3.1 percent in the final three months of the year. Area vacancy is at its lowest level since the end of 2018.
- The vacancy rate declined 60 basis points during 2021 as the Inland Empire remains one of the tightest markets in the nation. Nearly half of the submarkets in the region finished the year with vacancies below 2.5 percent.
- Most of the recent vacancy improvements were recorded in newer and more expensive properties in the area. The vacancy rate in Class A buildings declined 70 basis points during 2021, ending the year at 3.8 percent.
- **Forecast:** As an elevated number of projects come online in the next year, vacancy is expected to inch higher. The local vacancy rate is forecast to rise 20 basis points during 2022 to end the year at 3.3 percent.

> The vacancy rate declined 60 basis points during 2021.

Vacancy Trends



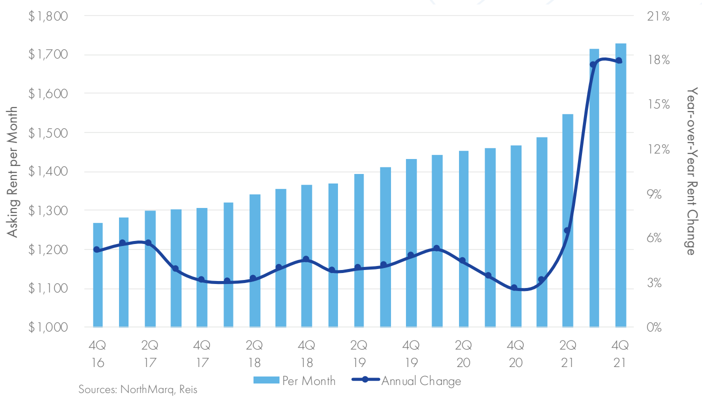
Sources: NorthMarq, Reis

Rents

- Asking rents rose throughout 2021, with rapid gains posted in the second and third quarters and a more modest rise recorded at the end of the year. Average rents in the Inland Empire ended 2021 at $1,729 per month, about $260 per month higher than one year earlier.
- The fourth quarter capped a record year for rent growth in the Inland Empire. Asking rents spiked 17.9 percent in 2021, following average gains of about 4.5 percent per year since 2015.
- Although rapid rent increases were recorded in all asset classes across the market, the largest growth in 2021 came from higher-end units. Year over year, Class A rents jumped more than 19 percent to end the period at $2,021 per month.
- **Forecast:** Rents in the Inland Empire should continue to trend higher in response to elevated renter demand for units. Apartment rents are forecast to advance nearly 5.5 percent in the year ahead to end 2022 at $1,820 per month.

> Asking rents spiked 17.9 percent in 2021.

Rent Trends



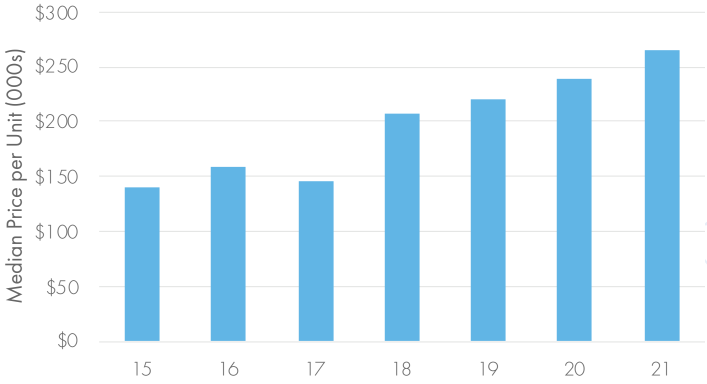
Sources: NorthMarq, Reis

Multifamily Sales

- After transaction activity slowed in 2020, the multifamily investment market gained momentum throughout the year, with sales velocity peaking in the fourth quarter. The number of sales in the final quarter of 2021 matched levels recorded in the previous two quarters combined.
- The median sales price ticked higher through the end of 2021, reaching approximately $264,800 per unit, up more than 10 percent from 2020. The steep rise in area rents during the middle part of the year was reflected in pricing levels during the fourth quarter; in sales that closed during the fourth quarter, the median price spiked to more than $340,000 per unit.
- Cap rates continue to tighten across the Inland Empire. During the fourth quarter, cap rates averaged approximately 3.3 percent.

> In the fourth quarter, cap rates averaged 3.3 percent.

Investment Trends



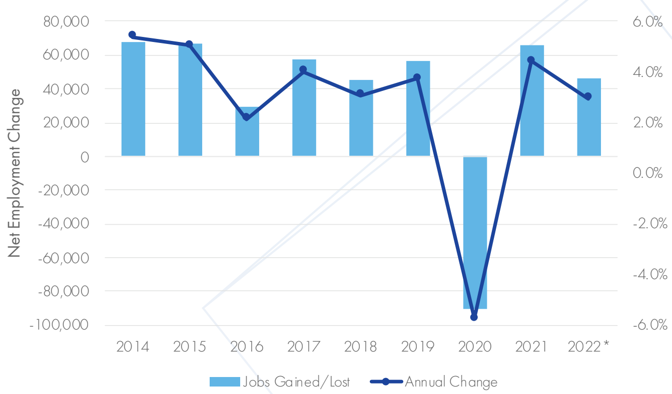
Sources: NorthMarq, CoStar

Looking Ahead

The Inland Empire multifamily market closed 2021 on an upswing, and the momentum is forecast to continue into the year ahead. Renter demand should remain elevated in 2022, fueled by an ongoing recovery in the local labor market. The market will likely return closer to equilibrium in the coming year, as deliveries of new units should gain momentum after a lull during the past year. With supply and demand more closely aligned in 2022, rent growth will likely closely track the market's long-term average, and vacancy could inch higher in a handful of submarkets where the bulk of the construction activity is concentrated.

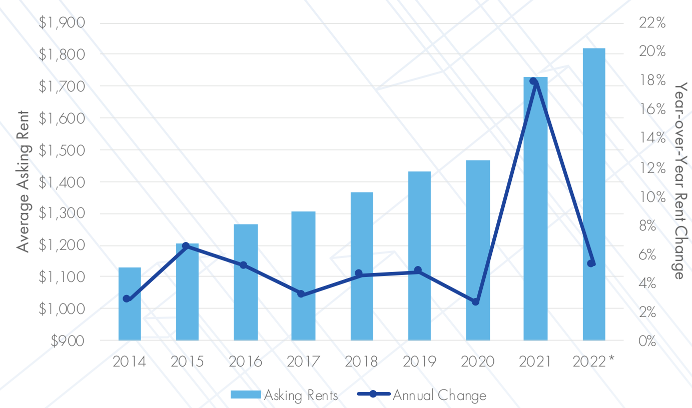
The multifamily investment market gained momentum in recent months, after a temporary slowdown in transaction activity during 2020 and into the first few months of 2021. Sales activity in the Inland Empire began to rebound during the third quarter, and the pace quickened considerably during the final quarter of 2021. This surge in sales velocity signaled a resumption of the sustained levels of investor activity that was common in the years leading up to 2020. Demand is forecast to remain elevated in the year ahead, as investors will be drawn to the market that routinely produces the most rapid growth in the Southern California region. The anticipated rent increases should allow cap rates to remain near current ranges, even if interest rates creep higher throughout the year.

Employment Forecast



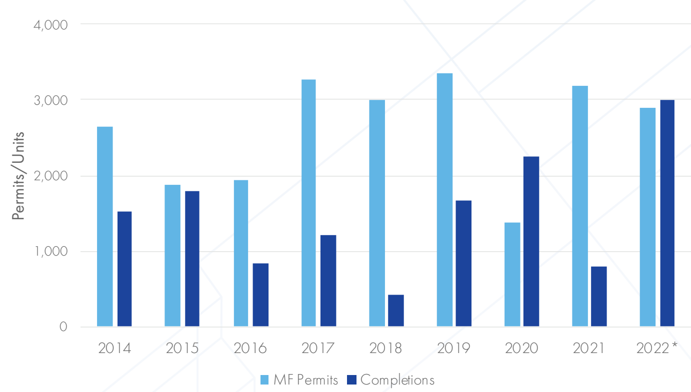
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



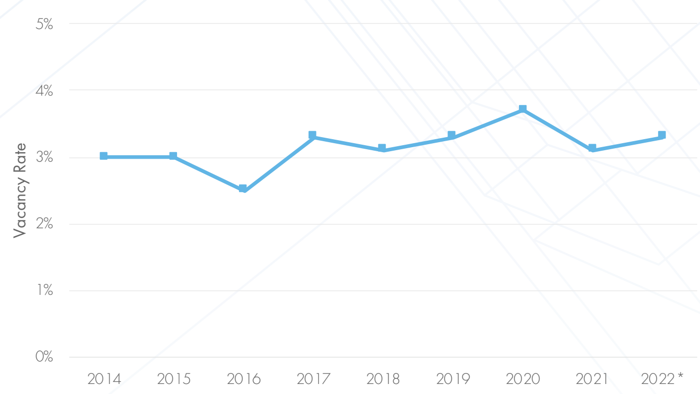
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

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