

Market Insights

Inland Empire Multifamily 2Q 2022



Construction Activity



4,820

Units under construction

349

Units delivered (YTD)

Market Fundamentals



3.0%

Vacancy

-40bps

Year over year change

\$1,853

Asking Rent

+19.7%

Year over year change

Transaction Activity



\$337,600

Median sales price per unit (YTD)

Low Vacancies Fueling Rent Gains, Prompting New Development

Highlights

- The Inland Empire multifamily market continued to record steady operations during the second quarter. Vacancy has remained low, and rents are rising at a rapid pace. The ongoing recovery in the local economy is supporting demand for apartment properties, and multifamily development activity is set to accelerate in the coming quarters.
- The vacancy rate remained unchanged from the start of the year, finishing the second quarter at a still-tight 3 percent. The rate declined 40 basis points during the last 12 months.
- Rents in the Inland Empire continue to rise at a rapid pace. Asking rents gained 2.5 percent in the second quarter to \$1,853 per month. Year over year, local rents have spiked 19.7 percent.
- The local investment market strengthened during the second quarter as more properties sold at higher per-unit prices. The median sales price thus far in 2022 has reached \$337,600 per unit, while cap rates have held fairly steady, averaging around 3.7 percent in the last three months.

Inland Empire Multifamily Market Overview

The healthy multifamily market conditions that prevailed at the beginning of this year carried over into the second quarter, with asking rents pushing higher and the vacancy rate remaining at a four-year low. The Inland Empire multifamily market is supported by a rebounding local economy and an expanding labor market. In addition to the large warehousing and distribution businesses in the area, there has also been notable employment growth in recent months within professional services and healthcare, two sectors that thrive when the local population expands. Multifamily developers are actively building new units to keep pace with growth, with projects totaling more than 4,800 units under construction at midyear.

The pace of investment activity in the Inland Empire gained traction during the second quarter, following a slower start to the year. Fueled by extremely tight operating conditions and rapid rent growth, per-unit pricing jumped during the second quarter, reflecting a positive market sentiment and continued competition for assets. Generally, investment activity during the second quarter was concentrated in the more affluent parts of the market and closest to job centers. Sales activity was greatest in Rancho Cucamonga and Ontario with Class B properties making up the largest share of the transaction mix. Most of the sales during the second quarter are recording cap rates between 3.5 percent to 4 percent.

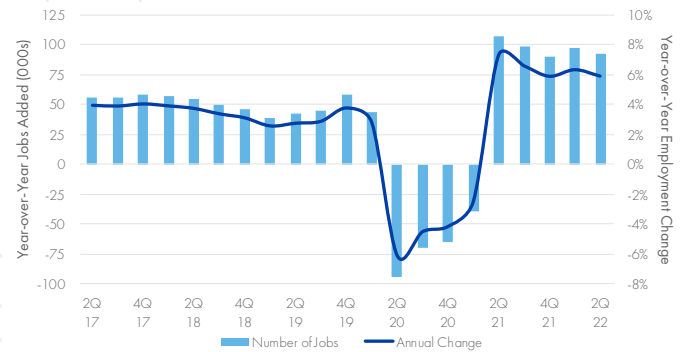
Employment

- The local labor market continued to advance in recent months with the addition of 16,000 jobs in the second quarter. Year over year, area employers added 92,700 positions and expanded payrolls by nearly 6 percent.
- The professional and business services sector outperformed most other industries in the last three months; this sector added 5,300 jobs in the second quarter. Year over year, professional employment grew by 5.6 percent.
- Amazon is currently constructing its largest warehouse facility in the world, located at the Merrill Commerce Center in Ontario. The facility will total more than 4 million square feet and result in 1,500 jobs. The company currently employs more than 40,000 people in the Inland Empire.
- **Forecast:** Local employers are expected to continue to add workers to payrolls in the remainder of the year. Total employment in the Inland Empire is projected to advance 4 percent in 2022 with the addition of 65,000 jobs.



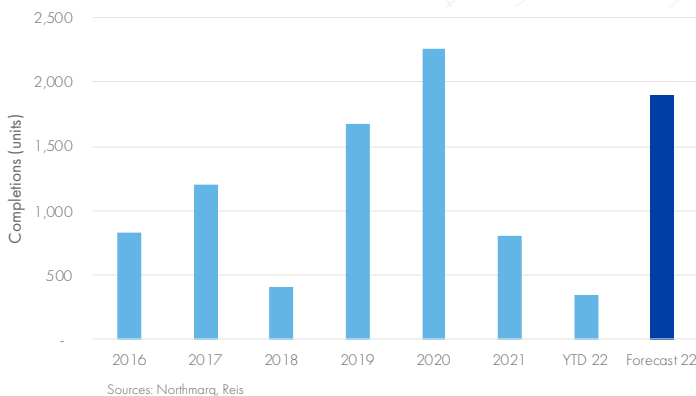
Year over year, employers added 92,700 positions.

Employment Overview



More than 4,800 units are currently under construction.

Development Trends



Development and Permitting

- Multifamily developers brought approximately 130 units online during the second quarter, following the delivery of about 220 units at the start of the year. Apartment completions will accelerate in the coming periods as several large-scale projects are slated to be delivered by the end of 2022.
- The multifamily development pipeline swelled in the past 12 months. Projects totaling more than 4,800 units are currently under construction in the Inland Empire, up from about 1,000 units one year ago.
- Multifamily permitting activity slowed during the second quarter, after a strong start to the year. Developers pulled permits for 525 units in the last three months, down roughly 30 percent from the previous period. Last year, permits for more than 3,000 multifamily units were issued.
- **Forecast:** Apartment developers are forecast to record an active second half for multifamily deliveries. Projects totaling approximately 1,900 units are scheduled to be completed in 2022.

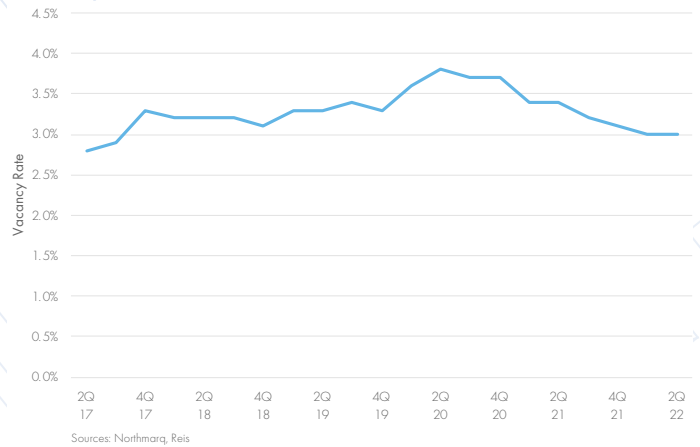
Vacancy

- Vacancy held steady at 3 percent in the second quarter, after dipping 10 basis points at the start of the year. The rate has averaged approximately 3.3 percent during the last five years.
- Local vacancy improved by 40 basis points in the last 12 months. The North Ontario submarket recorded the steepest decline in vacancy during the last year, dropping 170 basis points to 1.6 percent.
- Higher-end units accounted for the bulk of absorption in recent quarters. Year over year, the vacancy rate among Class A properties declined 70 basis points to 3.7 percent.
- **Forecast:** With the pace of apartment completions expected to pick up, the local vacancy rate is forecast to inch slightly higher in the coming quarters. Vacancy is projected to end the year at 3.3 percent, 20 basis points higher than at the beginning of the year.



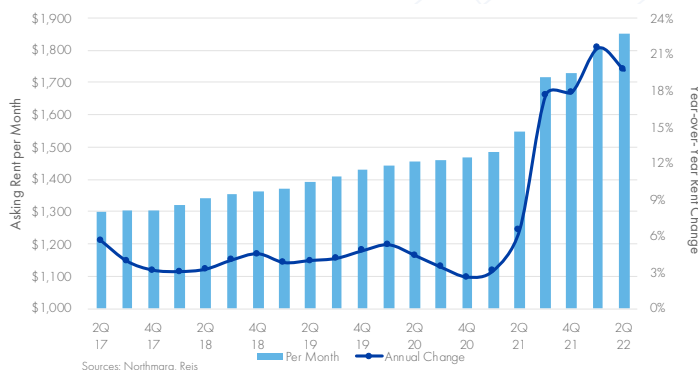
Vacancy held steady at 3 percent in the second quarter.

Vacancy Trends



Rents rose 2.5 percent in the second quarter to \$1,853 per month.

Rent Trends



Rents

- Rents rose 2.5 percent in the second quarter, building on a 4.5 percent increase in the first three months of the year. Average asking rents ended the second quarter at \$1,853 per month.
- The Inland Empire has been a leading market in California for rent growth in the past year; during the last 12 months, rents have spiked 19.7 percent. Annual rent growth averaged 4.4 percent from 2015 to 2020, before beginning to surge in 2021.
- Class A apartments have recorded pronounced rent gains in recent periods. Year over year, average rents in the market's top-tier properties rose 21.5 percent, reaching \$2,173 per month at the end of the second quarter.
- **Forecast:** Local rents will continue to trend upwards in the second half of the year, though the pace of growth will dip following last year's unprecedented gains. Asking rents are forecast to rise about 9.5 percent in 2022 to nearly \$1,900 per month.

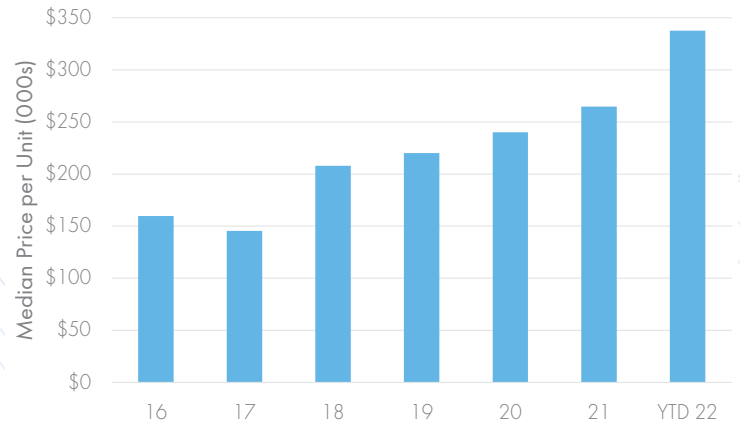
Multifamily Sales

- Multifamily sales velocity gained momentum in recent months, following limited transaction activity in the first quarter. A few more properties sold in the second quarter than at the start of the year, and sales velocity through the first half of 2022 closely tracked levels from the same period one year earlier. Recent transaction volumes have lagged the peak levels recorded in the final few months of last year.
- The median sales price thus far in 2022 is approximately \$337,600 per unit, up 27 percent from the median price last year. Prices rose in recent months as the median price in transactions that closed during the second quarter topped \$420,000 per unit.
- As prices spiked, cap rates held fairly steady. Cap rates during the second quarter averaged around 3.7 percent, similar to levels recorded at the beginning of the year. Cap rates will likely creep higher in the second half of this year.



The median sales price in 2022 is \$337,600 per unit.

Investment Trends



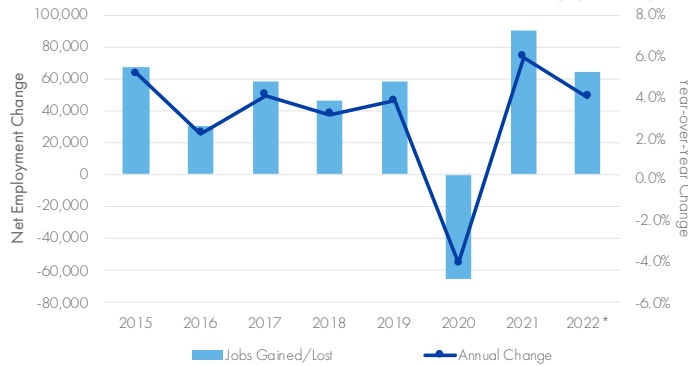
Sources: Northmarq, CoStar

Looking Ahead

Multifamily operating conditions in the Inland Empire are forecast to remain healthy through the remainder of this year. Current levels of renter demand should be sustained by a local economy that remains in expansion mode, while deliveries of new units should accelerate, but at a manageable pace. The more significant inventory growth in the market is scheduled to begin in 2023. Absorption levels have been highest in Class A units in recent periods, highlighting the continued demand for top-tier apartment projects and the lack of any significant available inventory in Class B and Class C properties. Rents are forecast to advance across all property classes.

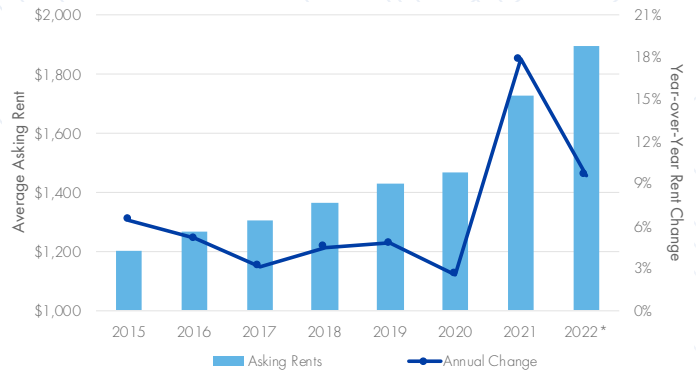
The investment market in the Inland Empire will likely maintain a fairly steady pace during the second half of this year. Investor demand will be buoyed by the market's healthy growth outlook and tight operating conditions, with absorption to be supported as elevated housing costs continue to pull demand into growing areas surrounding large employment centers. While cap rates remained low through the first half, the most likely outcome of rising interest rates will be some upward pressure on cap rates. It may take a few months for both buyers and sellers to adjust expectations, but the end of this year will likely be the most active period for sales velocity in 2022.

Employment Forecast



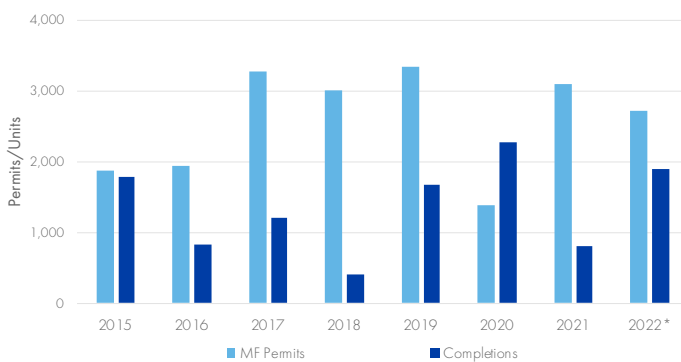
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



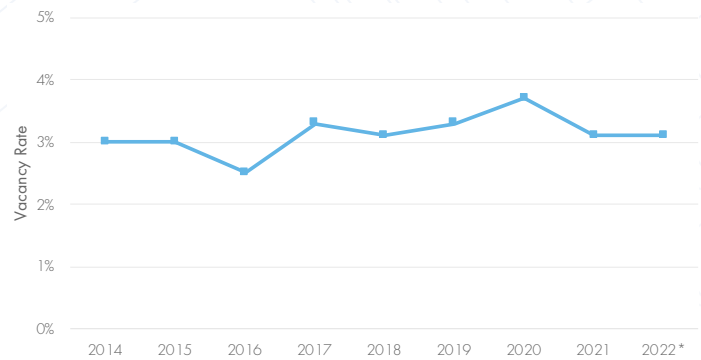
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis



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