Northmarq

MARKET INSIGHTS

A mixed outlook leading into 2024

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	5,768
UNITS DELIVERED	3,038

MARKET FUNDAMENTALS

VACANCY RATE	3.4%
YEAR-OVER-YEAR CHANGE	+40bps
ASKING RENTS	$1,773
YEAR-OVER-YEAR CHANGE	-2.5%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$240,600

Inland Empire Multifamily
4Q 2023

HIGHLIGHTS

- Operating conditions in the Inland Empire cooled during the final months of 2023. Vacancy has remained within a very tight range, but rents declined. Construction is accelerating, which should result in another vacancy rise in 2024.
- Local vacancy inched up 10 basis points in the fourth quarter, ending 2023 at 3.4 percent. The rate rose 40 basis points for the full year, following two consecutive years of declines.
- Rents dropped in the fourth quarter after remaining fairly flat through the first nine months of the year. Asking rents fell 2.5 percent to $1,773 per month in 2023.
- The number of sales transactions in the multifamily investment market slowed throughout the year, with an additional decline recorded in the fourth quarter. The median price in 2023 was $240,600 per unit, with Class C properties accounting for the bulk of the transactions.

INLAND EMPIRE MULTIFAMILY MARKET OVERVIEW

Multifamily operating conditions in the Inland Empire were fairly steady during the fourth quarter, with the exception of rental rates, which recorded their steepest quarterly decline in more than a decade. The drop in rents is likely an isolated event and is not expected to repeat in the coming periods. Current rents are similar to levels recorded in early 2022, and rents are expected to remain fairly stable throughout much of 2024. Much of the stability in the local multifamily market comes from a consistently low vacancy rate. Vacancy ended 2024 at 3.4 percent, just 20 basis points higher than the 10-year average rate in the Inland Empire. With deliveries of new units on the rise, vacancy will likely trend a bit higher in 2024. The most active submarket for new construction in 2024 will be Southwest Riverside County/Temecula, with approximately 2,000 units slated to be delivered.

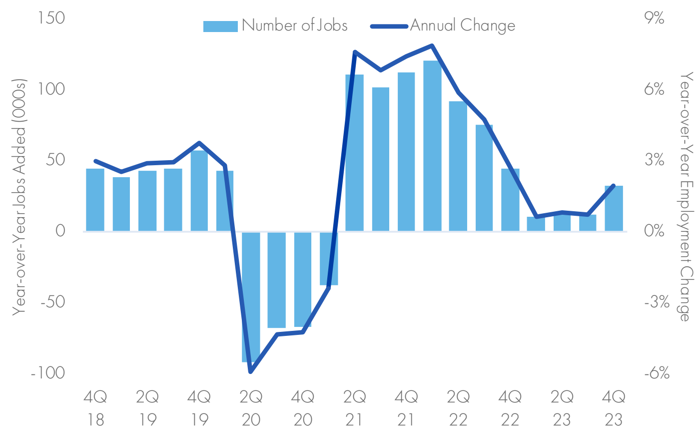
The Inland Empire is regularly one of the more active markets for sales velocity in Southern California, but the pace of transactions cooled in 2023. Activity was slow but steady throughout much of 2023, although fewer properties traded during the fourth quarter, which is typically a more active period for sales. Throughout much of the year, Class C properties made up the majority of sales, representing more than 70 percent of annual transactions. Historically, the older Class C properties have accounted for closer to 30 percent of total deals. With Class C properties accounting for such a significant share of the transaction volume in the market, pricing retreated. The median sales price fell to $240,600 per unit. In the handful of Class A and Class B properties that transacted in 2023, prices ranged from $285,000 per unit to $390,000 per unit.

EMPLOYMENT

- Job growth in the Inland Empire continued through the final months of the year. In 2023, area employers expanded payrolls by 1.9 percent, with the addition of 32,400 jobs.
- Employment in the construction trades grew at a rapid rate in recent quarters to keep pace with the many large developments taking place within the market. This sector recorded the steepest employment gains during 2023, expanding by more than 8 percent with the addition of 10,000 net new jobs.
- Amazon's fulfillment center under construction in Ontario is scheduled to be completed in 2024. This will be the company's largest warehouse in the world, coming in at 4.1 million square feet, and it will employ over 1,500 workers.
- **FORECAST:** The pace of economic expansion is forecast to cool in 2024, resulting in fewer jobs being added across the country. In the Inland Empire, employers are expected to expand area payrolls by 1.2 percent with the addition of approximately 20,000 jobs.

In 2023, employers grew payrolls by 32,400 workers.

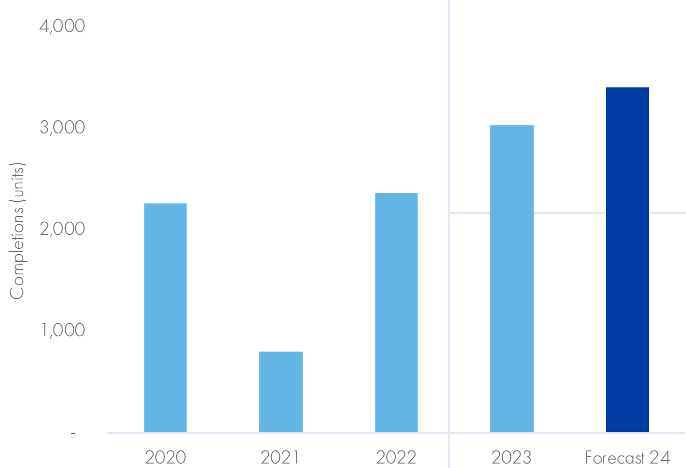
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling nearly 5,800 units are currently under construction.

DEVELOPMENT TRENDS



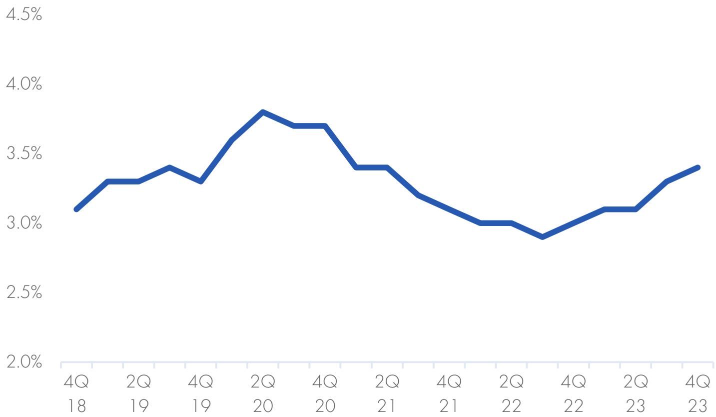
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- The pace of multifamily deliveries in the Inland Empire accelerated during the fourth quarter as projects totaling over 1,200 units came online. This brought the delivery total for the full year to more than 3,000 units, a 26 percent increase from the prior year.
- Projects totaling nearly 5,800 units are currently under construction in the Inland Empire, down 16 percent from the end of 2022. Construction is taking place throughout the region, but the most significant concentration of new development is taking place in the Southwest Riverside/Temecula submarket, with more than 2,000 units set to be delivered in 2024.
- Multifamily permitting cooled in the final months of the year, after an active first three quarters. Developers pulled permits for fewer than 1,000 multifamily units in the fourth quarter, but the total for the full year still approached 7,000 units.
- **FORECAST:** Multifamily deliveries are forecast to come in ahead of last year's pace in 2024, although the number of starts should slow. Developers are expected to deliver projects totaling approximately 3,400 units in the next 12 months.

During the fourth quarter, the rate increased 10 basis points.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

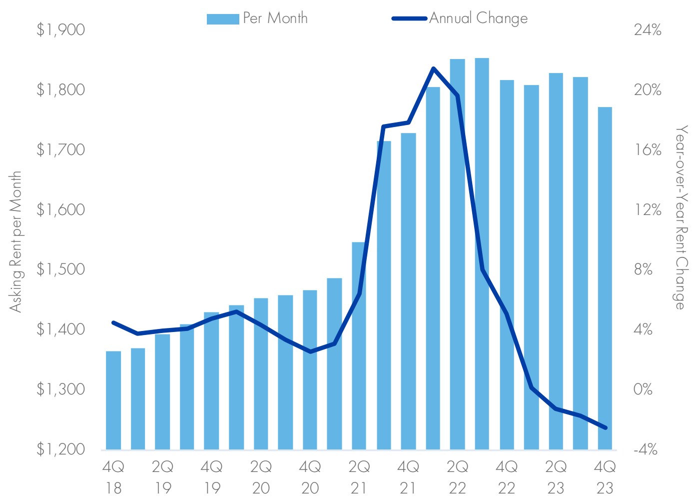
- After trending lower for much of 2021 and 2022, vacancy pushed higher in recent quarters. During the fourth quarter, the rate increased 10 basis points to 3.4 percent. For the full year, vacancy rose 40 basis points.
- Vacancy rates are very consistent across property classes. The average vacancy rate in Class A units ended 2023 at 3.3 percent, matching the level from one year earlier. Class A vacancy rates may push higher in 2024 as the combined impact of consecutive years of elevated completions will likely create some supply-side pressures.
- Vacancy in Rancho Cucamonga crept higher in 2023, rising 70 basis points to 3.7 percent. The submarket has some of the highest rents in the Inland Empire, and retaining renters has been more challenging as competition has increased. Class A vacancy in the submarket ended the year at 4.1 percent.
- **FORECAST:** Vacancy in the Inland Empire is forecast to push higher in 2024, and the rate will likely end the year above its long-term average. Vacancy is on pace to rise 50 basis points to 3.9 percent in the year ahead.

RENTS

- Rents dipped in the fourth quarter, after holding mostly steady for much of 2023. Asking rents dropped 2.7 percent in the final three months of the year as leasing momentum slowed.
- Average rents dropped 2.5 percent in 2023. This followed a steep upward trend in recent years; from 2018 to 2022, average rents in the region spiked 33 percent, an increase of nearly $500 per month.
- While rents retreated throughout much of the Inland Empire, the South Ontario/Chino submarket was able to maintain the highest rents in the region and only recorded a modest decline. Average asking rents in South Ontario/Chino inched down just 1.5 percent in 2023, ending the year at $2,375 per month.
- **FORECAST:** Rents should stabilize by midyear and post modest gains in the second half of 2024. For the full year, asking rents are forecast to reach approximately $1,800 per month, 1.5 percent higher than the year-end 2023 figure.

The South Ontario/Chino submarket maintained the highest rents in the region.

RENT TRENDS



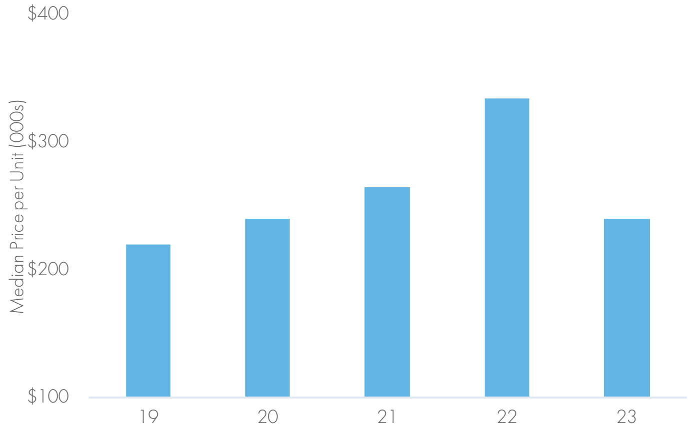
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Sales activity in the multifamily investment market in the Inland Empire remained limited throughout the past 12 months. Total transaction volume in 2023 fell by more than 50 percent from 2022 levels. During the fourth quarter, transaction counts were down 40 percent from levels in the prior quarter.
- In 2023, Class C apartments made up over 70 percent of all multifamily transactions in the Inland Empire despite representing closer to 35 percent of the total stock in the region. In recent years, Class B properties have made up more than half of all sales while Class C units totaled less than 30 percent.
- With the transaction market dominated by lower-tier assets, per-unit prices were lower than in recent years. The median sales price in 2023 was $240,600 per unit, down almost 30 percent from the median price in 2022.
- Cap rates held steady during the fourth quarter after rising throughout the first half of the year. Cap rates averaged 5 percent in the last three months of 2023.

The median sales price in 2023 was $240,600 per unit.

INVESTMENT TRENDS



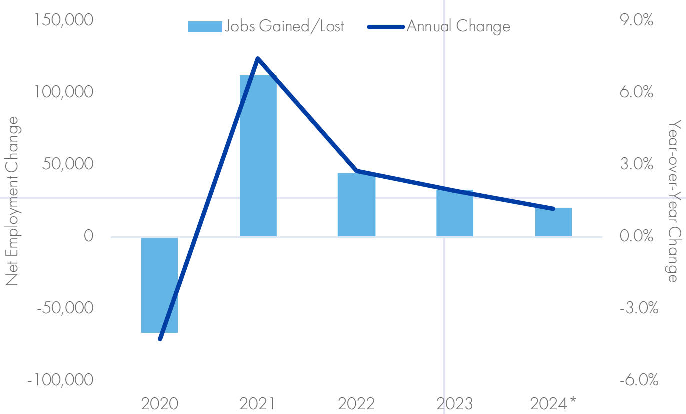
Sources: Northmarq, CoStar

LOOKING AHEAD

The Inland Empire multifamily market is expected to record some softening in operating fundamentals in 2024. For the past decade, local apartment vacancy has averaged about 3.2 percent, and the rate rarely reaches as high as 4 percent. That trend should remain in place in 2024, although the rate is forecast to approach levels that are near the upper bound of the long-term range. While renter demand is poised to remain positive, it is not expected to fully keep pace with new supply growth. The market is forecast to record an increase in new multifamily supply, but construction will be concentrated in the Temecula and Murrieta areas. This concentration will result in some isolated supply-side pressures, but most submarkets in the region should maintain tight vacancy conditions.

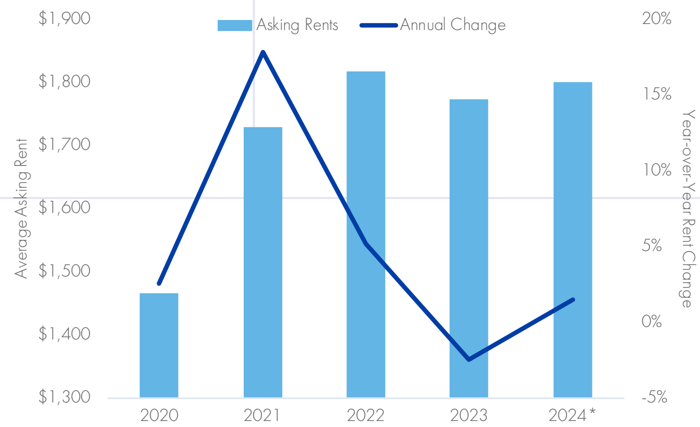
Investment activity will likely gain some momentum in 2024, particularly in the second half of the year when interest rates are expected to be lower than current levels. Any increase in sales velocity will likely begin with an accelerating pace of transactions in 1980s-vintage construction. During the past decade, properties built in the 1980s accounted for nearly half of the property sales in the Inland Empire, as operators leveraged tight occupancy conditions to successfully implement value-add strategies. These investments fell somewhat out of favor in 2023, but as conditions stabilize in the coming year, there should be a resumption in the sales of older properties.

EMPLOYMENT FORECAST



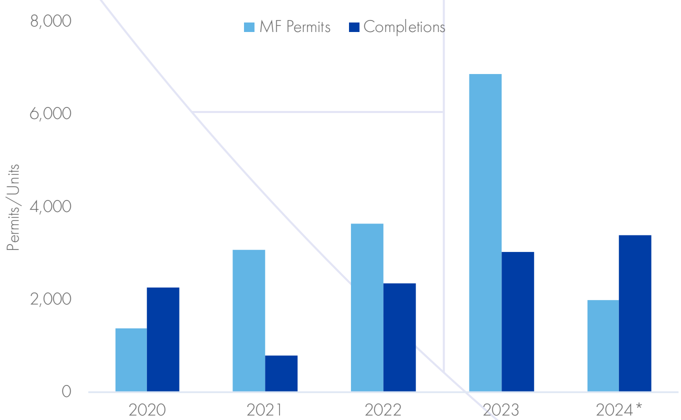
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



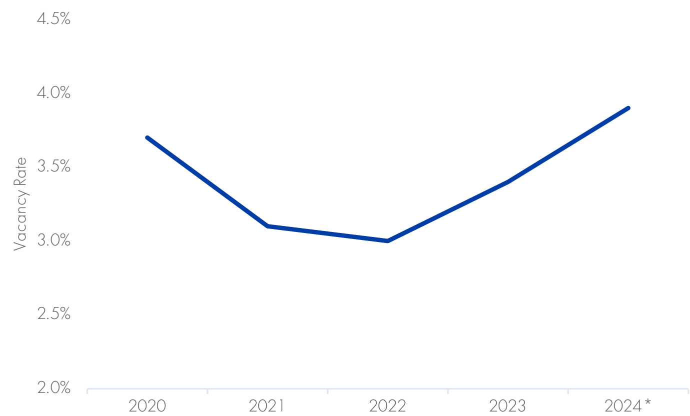
* Year End Forecast
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, REIS

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