MARKET REPORT

Multifamily

Riverside-San Bernardino Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

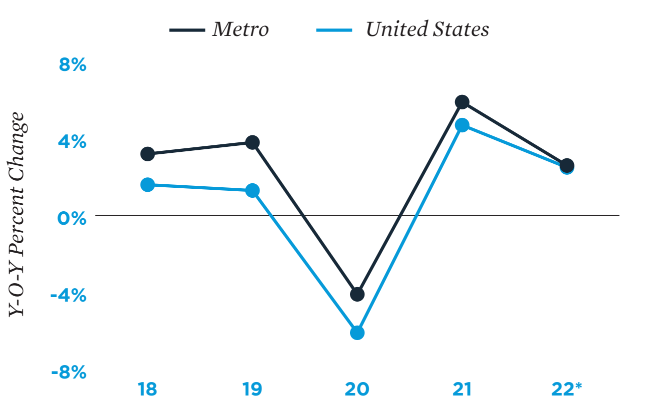
2Q/22

Home Price Appreciation and Industrial Growth Spur Demand Across Rental Tiers

Widening affordability gap a boon for luxury apartments. Unyielding demand for regionally lower-cost rentals has supported sub-2 percent vacancy and statewide-leading rent growth in Riverside-San Bernardino. Despite the 18 percent rent gain recorded last year, the metro's affordability gap, the difference between an average rental rate and a mortgage payment on a median priced home, has expanded to $650 — a figure well above the national average. Consequently, upper-tier units are an attractive alternative for households considering homeownership, with vacancy in the Class A sector at a record-low rate entering this year. Sparse luxury availability has prompted a rise in multifamily development. Still, only the neighboring cities of Ontario and Rancho Cucamonga have active pipelines larger than 500 units, suggesting upcoming supply additions will be well received.

Industrial hub status aids demand for older apartments. E-commerce and logistics firms are poised to expand footprints and staff counts in the coming quarters as the Inland Empire's rapid industrial expansion continues. Growth of the sector, which predominantly features a workforce of individuals that historically rent, is poised to increase what is already unprecedented demand for Class B and C units. Near-term expectations for strong rates of household formation and in-migration will also lift demand in both apartment tiers, providing owners the impetus to steadily increase rents during 2022.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

42,500 JOBS *will be created*

EMPLOYMENT:

Spearheaded by continual increases in warehousing, logistics and health services-related hiring velocity, the Inland Empire records a 2.6 percent rate of employment growth during 2022. Last year, employers created nearly 90,000 positions.

3,100 UNITS *will be completed*

CONSTRUCTION:

Delivery volume exceeds the 3,000-unit mark for the first time since 2007, driven by two large-scale properties in Ontario and Rancho Cucamonga. Apart from these developments, projects slated for completion feature an average of 130 units.

40 BASIS POINT *increase in vacancy*

VACANCY:

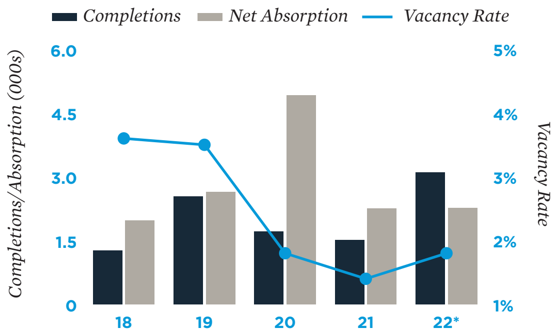
After compressing 210 basis points during the prior two years, vacancy rises moderately in 2022 amid a rise in supply additions. Still, unit availability holds below 2 percent for a third consecutive year, as renters absorb nearly 2,300 apartments.

9.5% INCREASE *in effective rent*

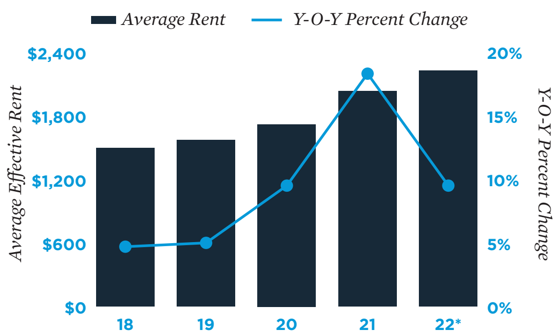
RENT:

Limited unit availability across submarkets curtails concessions usage, supporting a third straight year of robust rent growth. At the end of 2022, the metro's average effective rate will sit at $2,227 per month.

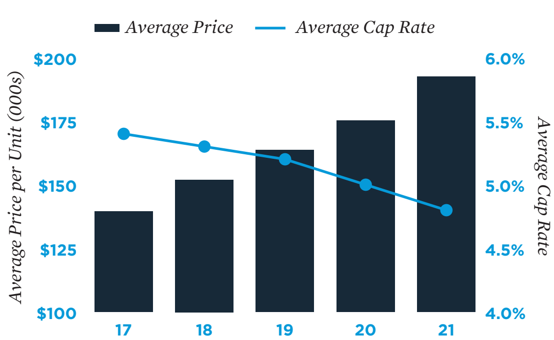
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

1Q 2022 - 12-Month Period

CONSTRUCTION

1,510 units completed

- Developers increased rental inventory by just 0.8 percent during the 12-month period ending in March. Only the Rancho Cucamonga-Upland submarket added more than 400 units.
- A collection of projects that each comprise more than 300 units account for two-thirds of the metro's active pipeline.

VACANCY

20 basis point decrease in vacancy Y-O-Y

- Renters absorbed more than 1,870 units over the past four quarters, reducing availability to 1.6 percent. During the prior yearlong span, vacancy compressed by 190 basis points.
- Vacancy of sub-2 percent was recorded in all but two of the metro's 12 submarkets at the onset of the second quarter.

RENT

18.1% increase in the average effective rent Y-O-Y

- The metro's average effective rate reached $2,095 per month in March, as double-digit rent growth was widespread across submarkets. During the prior 12-month stretch, an 11 percent gain was notched.
- Entering April, the difference between average Class B and Class C rent was $550 per month, while the gap between Class A and Class B rates was $560.

Investment Highlights

- Deal flow doubled on an annual basis in 2021, as extremely tight conditions and near-term growth projections boosted investor demand for apartments. Strong fundamentals in Riverside and San Bernardino counties lifted the average sale price 10 percent to $192,000 per unit, the lowest entry cost among major California markets. A competitive bidding environment reduced the mean cap rate to 4.8 percent, a figure that exceeds neighboring metros by at least 50 basis points.
- Sales velocity in the Class B/C sector reached a 16-year high, fueled by robust demand for sub-30-unit complexes in prominent cities and outlying submarkets. Older Class C rentals are trading at low-4 to high-5 percent returns throughout the metro, with yields below this range most frequent in the city of Riverside. Buyers seeking higher cap rates are active in the city of San Bernardino, where 6 percent to 7 percent yields and below-average pricing are readily obtainable.
- The Coachella Valley represents an additional area of emphasis for Class B/C buyers that seek locales with sparse construction pipelines and tight vacancy; however, heightened demand for assets has largely eliminated sub-$200,000 per unit pricing from the submarket.

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Price: $250