MARKET REPORT

Multifamily

Riverside-San Bernardino Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

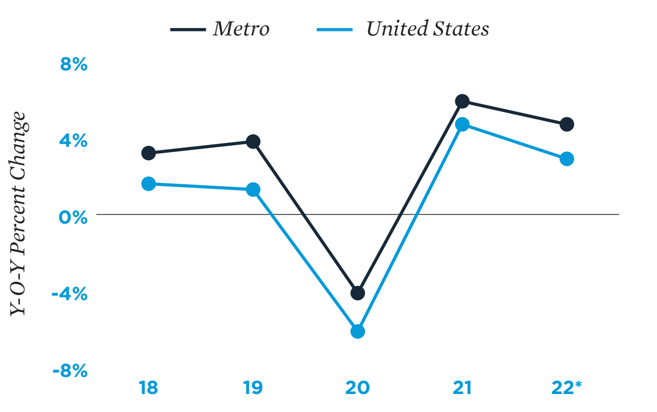
3Q/22

Regionally Discounted Rents Sustain Appeal; Developers Concentrate on Large Properties

Rent cost disparity is evident. The gap between the average Class A and Class B rent in the Inland Empire stood at $535 per month entering the second half of this year, while the margin between Class B and C registered at $580 per month. This growing disparity and ongoing inflation are motivating more renters to move down the quality stack in search of lower costs. Recent leasing data reflects this, as Class A vacancy rose the most among segments at 90 basis points, while the Class B rate climbed 50 basis points and Class C availability declined. Submarkets with locally discounted rents are benefiting from this trickle-down effect as well. Entering July, Coachella Valley and Fontana-Rialto-Colton were each home to 1.3 percent vacancy. On a broader scale, the metro's mean monthly rent was at least $450 below other Southern California metros at the onset of July, suggesting regional relocations to the Inland Empire will continue.

Sizable deliveries on the horizon. The Inland Empire's construction pipeline was noteworthy at the onset of July, with nearly 5,000 units underway. The impact of these rentals on overall fundamentals, however, should be moderate this year, as only 15 percent of the apartments being built are slated for delivery prior to the end of 2022. Additionally, of the eight projects featuring more than 300 doors, just one — a 397-unit property in Jurupa Valley — is scheduled for second half completion. Still, this project and other near-term additions will gauge the level of concession usage required to stabilize new properties in an inflationary environment.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook

75,000 JOBS *will be created*

EMPLOYMENT:

Driven by transportation, warehousing and professional services hiring, the Inland Empire added nearly 45,000 positions in the first half of 2022. This puts the metro on track to register a 4.7 percent annual rate of employment growth this year.

1,100 UNITS *will be completed*

CONSTRUCTION:

For a third consecutive year, rental inventory expands by less than 1 percent. Projects slated for 2022 delivery are spread throughout the Inland Empire, with Riverside proper the only city scheduled to add more than one property.

170 BASIS POINT *increase in vacancy*

VACANCY:

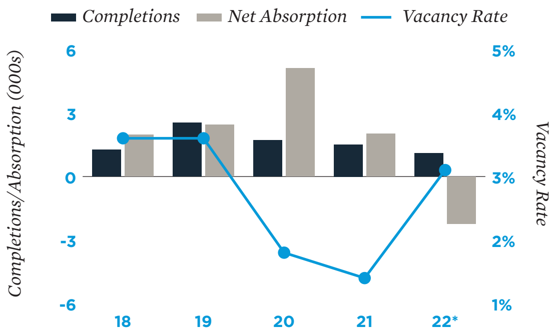
The moderate volume of supply additions outpaces demand, turning net absorption negative for the first time in 11 years. Still, at 3.1 percent, year-end vacancy is 140 basis points below the long-term annual average.

10.1% INCREASE *in effective rent*

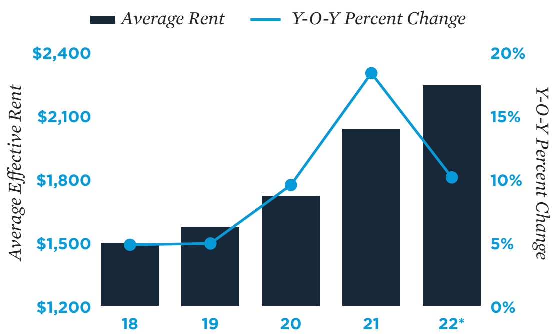
RENT:

Limited Class B and C availability and sparse concession usage supports double-digit rent growth. Riverside-San Bernardino's mean monthly rate is expected to reach $2,240 per month, a figure $520 below the California year-end average.

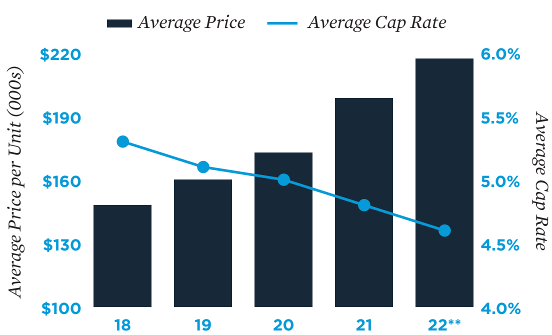
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

1,409 units completed

- The metro's apartment inventory grew by 0.6 percent during the four-quarter span ended in June, as the volume of supply additions surpassed the total from the prior yearlong interval by nearly 200 units.
- Roughly 70 percent of the rentals completed over the past 12 months were in Riverside County, highlighted by the 442-unit The Monterey in Corona.

VACANCY

60 basis point increase in vacancy Y-O-Y

- The Inland Empire's vacant stock expanded by 1,560 units during the first half of 2022, pushing rental availability up to 2.2 percent. Still, vacancy is at or below 3 percent in all 12 submarkets.
- Class A vacancy rose 100 basis points in the first six months of 2022 to 3.0 percent as the segment's mean effective rent eclipsed $2,500 per month.

RENT

17.2% increase in the average effective rent Y-O-Y

- All rental classes recorded rent growth of at least 13 percent over the past year ended in June, elevating the mean effective rate to $2,178 per month.
- Ten of 12 submarkets registered rent gains of at least 15 percent, with Coachella Valley notching the most pronounced increase. Here, the mean monthly rate climbed nearly 25 percent to $1,786.

Investment Highlights

- During the past 12 months ended in June, a nearly 40 percent improvement in multifamily deal flow was recorded, highlighted by a historically strong second half of 2021. The increase in sales velocity coincided with the metro registering the largest price growth among major California markets at just over 17 percent. This spike elevated average pricing to $217,300 per unit and compressed the mean cap rate to 4.6 percent. These impressive trends may garner the attention of more institutional investment groups that typically focus on the coastal markets of California.
- Institutional buyers targeting larger-scale Class B complexes and newer-built assets are most active in Ontario, Rancho Cucamonga and Riverside, where minimum returns hover in the 3 percent range. Among these three submarkets, Class B vacancy is the lowest in Riverside at just 0.9 percent, while Rancho Cucamonga-Upland has the highest rate of the bunch, yet is still very tight at 1.6 percent.
- Across the 10 submarkets that have noteworthy amounts of Class A stock, segment vacancy is below 3 percent in four, headlined by a rate of just 2.3 percent in Fontana-Rialto-Carlton. This submarket also led the market in terms of luxury segment rent growth over the past year at nearly 20 percent.