

MARKET REPORT

MULTIFAMILY

Riverside-San Bernardino Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

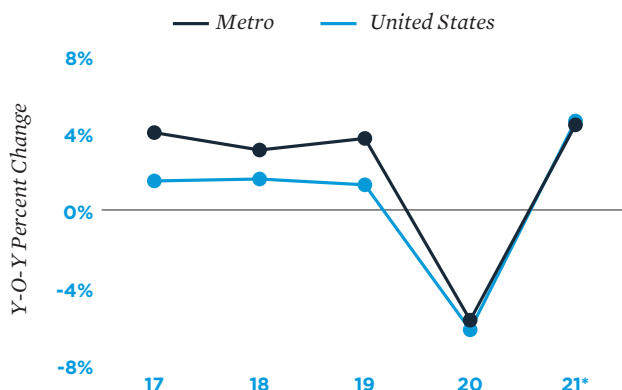
3Q/21

Lowest Vacancy Rate in the Nation Supports Double-Digit Rent Growth and Investor Competition

Rush to affordability constricts vacant stock. The Riverside-San Bernardino apartment sector has outperformed nearly every major rental market during the health crisis. From July 2020 to June 2021, vacancy compressed 200 basis points to below 2 percent and the metro recorded the second fastest rent gain nationally. The formation of 26,300 households propelled this strong performance, as more people sought lower housing costs in the region during the pandemic. Additionally, the barrier to homeownership is climbing, as the median home price surged 32 percent in the past year. While the Inland Empire is unlikely to sustain the downward vacancy trajectory from the past year, the limited number of available rentals will position the metro to end this year as the nation's tightest apartment market.

Luxury fundamentals warrant pipeline refill. The Inland Empire entered July with the lowest Class A vacancy rate in the nation, yet an influx of new rentals is not on the near-term horizon. Instead, inventory will expand by just 0.3 percent during the second half with less than 100 units completed in San Bernardino County. This moderate volume of deliveries will further curtail concession usage, extending the recent stretch of strong rent growth in the luxury sector. Outstanding Class A fundamentals have the potential to prompt an uptick in multifamily starts and proposals. As it currently stands just five projects totaling 1,550 units are underway with completion dates beyond 2021.

Employment Trends



* Forecast

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

Multifamily 2021 Outlook



**65,000
JOBS**

will be created

EMPLOYMENT:

Supported by industrial and health-related hiring, a 4.4 percent rate of employment growth will be recorded in 2021. This job creation allows Riverside-San Bernardino to recapture more than 70 percent of the 90,800 positions lost last year.



**1,400
UNITS**

will be completed

CONSTRUCTION:

Delivery volume trails the prior five-year average by roughly 200 units as the Inland Empire's rental inventory expands by 0.7 percent. Approximately three-fourths of the apartments completed this year are in Riverside County.



**30
BASIS POINT**

decrease in vacancy

VACANCY:

Demand for regionally affordable apartments and minimal supply-side pressure will support a sixth consecutive year of vacancy compression, lowering unit availability to an exceptionally sparse 1.5 percent.



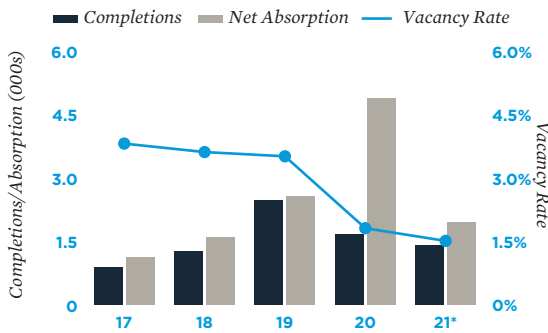
**11.4%
INCREASE**

in effective rent

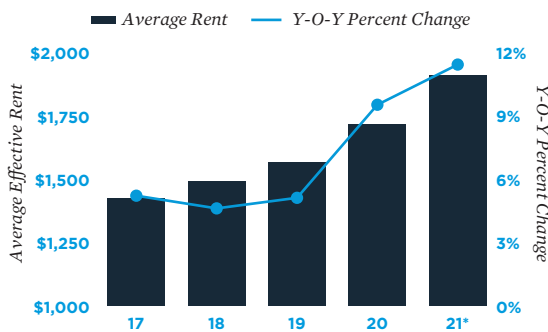
RENT:

Extremely tight vacancy will allow the market to realize double-digit annual rent growth for the first time in more than two decades. At \$1,910 per month, the metro's year-end average will remain at least \$300 below other Southern California markets.

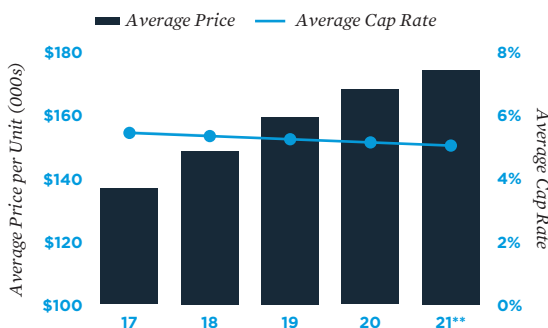
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

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

IPA Multifamily

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Price: \$250

2Q21 – 12-Month Period



CONSTRUCTION

1,326 units completed

- Rental inventory expanded by 0.7 percent over the past 12 months ended in June, trailing the 1.3 percent increase from the prior yearlong span. Corona was the only submarket to add more than 300 units.
- An additional 2,320 units were underway at the onset of the second half with delivery dates extending into early 2023.



VACANCY

200 basis point decrease in vacancy Y-O-Y

- Renters absorbed 5,130 units over the past year, lowering vacancy to 1.6 percent. Of the 12 submarkets, 11 noted triple-digit compression.
- Following annual declines of more than 200 basis points, the Class A and B tiers entered July with vacancy rates of 2.0 percent and 1.3 percent, respectively. Class C vacancy is extremely limited at 1.0 percent.



RENT

16.4% increase in the average effective rent Y-O-Y

- Sizable vacancy compression across most submarkets supported a robust pace of rent growth that lifted the average effective rate to \$1,851 per month. During the prior yearlong span a 3.3 percent gain occurred.
- All apartment tiers notched double-digit rent growth over the past year, highlighted by the Class A sector's 20-plus percent gain.

Investment Highlights

- Sparse vacancy and strong rent growth throughout Riverside-San Bernardino preserved investors' appetite for Class B/C assets over the past 12 months ended in June. During this period, sales activity rose marginally on a year-over-year basis.
- Fueled by a competitive bidding environment, the Inland Empire's average price point climbed more than 6 percent during the last four quarters to \$173,900 per unit. The uptick in overall asset value lowered the mean first-year return to 5 percent, a rate 60 to 80 basis points above neighboring metros. Still, some Class C properties have recently traded at minimums in the 3 percent range.
- California-based investors seeking below-average pricing are acquiring Class C properties in San Bernardino, the Coachella Valley and high desert locales off Interstate 15. Home to some of the lowest vacancy and rental rates in the metro, these areas have the potential for significant near-term NOI growth.
- Buyers seeking a more diverse mix of listings are targeting Riverside-Corona, a top locale for recent absorption and rental development. Here, yields commonly fall in the high-3 to low-5 percent band.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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