MARKET REPORT

Marcus & Millichap

MULTIFAMILY

Riverside-San Bernardino Metro Area

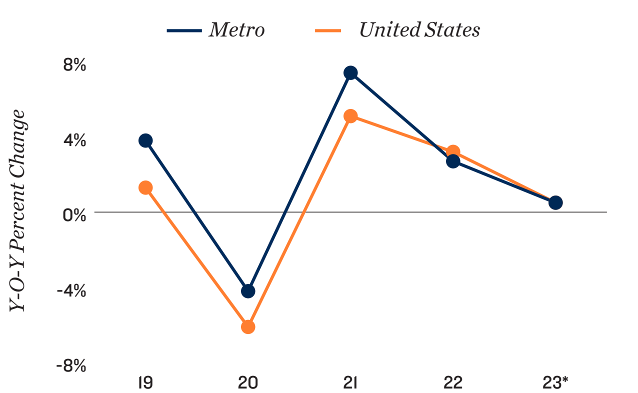
2Q/23

Renter Demand for Luxury Apartments Tested in Area of Regionally Lower Housing Costs

Delivery spike coincides with above-average vacancy. Responding to historically low vacancy during most of the pandemic, builders are slated to complete more Inland Empire apartments in 2023 than during the prior three-year stretch. This influx of supply, and a first quarter vacancy rate that ranked highest among Southern California markets, indicates the metro may face some near-term volatility. Fortunately, construction is dispersed throughout Riverside and San Bernardino counties, with more than 20 cities home to at least one conventional project. Additionally, the metro's average Class A rent is $90 to $170 per month below the mean Class B rate of nearby markets, attracting renters from these locales eager to lower their housing costs without stepping down in quality. This dynamic and economic growth will support relocations to the metro for the foreseeable future, allowing the inflow of units to be absorbed over time.

Completions relatively sparse in areas that warrant additions. Submarkets that entered April with the metro's lowest vacancy rates appear positioned to maintain their standing, as these locales face minimal near-term supply pressure. Home to some of the Inland Empire's most affordable rentals and an epicenter of local industrial operations, Fontana-Rialto-Colton will add roughly 400 units this year. The Coachella Valley's delivery total will fall just below this tally, significant as the area is the largest submarket by inventory. Elsewhere, Redlands is slated to add the fewest units among submarkets, limiting competition for its stock of Class A and B rentals.

Employment Trends



** Forecast*

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

Multifamily 2023 Outlook

8,000 JOBS *will be created*

EMPLOYMENT:

Riverside-San Bernardino's job count was at an all-time high entering March, with the unemployment rate at 4.1 percent. This total is expected to rise moderately during the remainder of this year, equating to annual employment growth of 0.5 percent.

4,050 UNITS *will be completed*

CONSTRUCTION:

The Inland Empire registers the largest increase to rental stock among Southern California markets this year at 2.1 percent. The number of units delivered across the metro also exceeds completion totals for San Diego and Orange County.

160 BASIS POINT *increase in vacancy*

VACANCY:

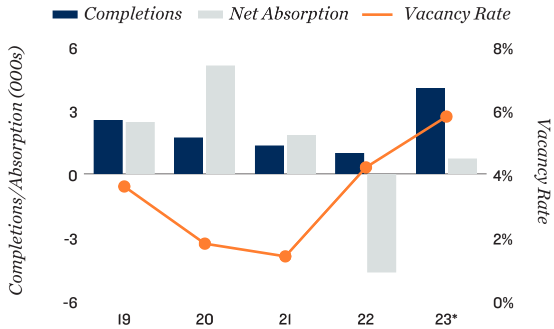
Positive net absorption returns to the metro; however, supply additions exceed demand, pushing vacancy up to 5.8 percent. Class C vacancy remains well below the overall rate amid strong demand for lower-cost living options.

1.4% INCREASE *in effective rent*

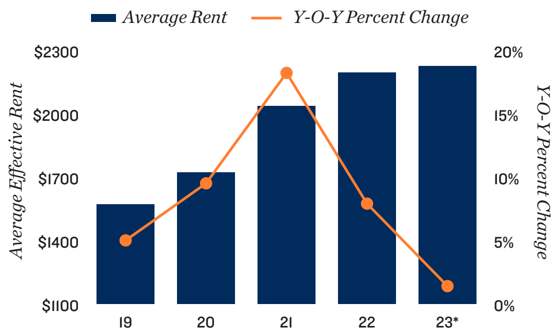
RENT:

After climbing by more than 25 percent over the past two years, the pace of rent growth slows during 2023 as 10-year high vacancy limits the rate of increase. Still, the average effective rent will inch up to a record mark of $2,226 per month.

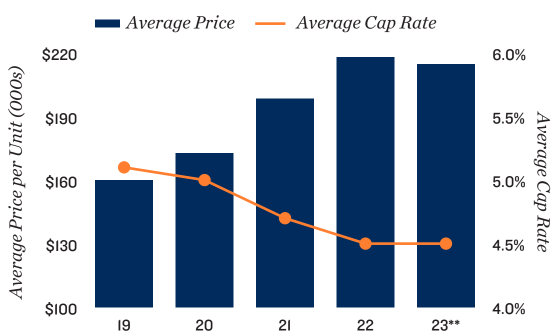
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

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

1Q 2023 - 12-Month Period

CONSTRUCTION

748 units completed

- Less than 200 units were delivered during each of the past three quarters. This pace of supply additions notably trailed the near-term quarterly average and translated to a 0.2 percent stock increase.
- Entering April, projects in Murrieta and Ontario accounted for nearly 40 percent of the metro's active pipeline, which comprised 6,800 apartments.

VACANCY

310 basis point increase in vacancy Y-O-Y

- The Inland Empire's vacant stock grew by roughly 6,000 rentals over the last four-quarter span, lifting unit availability to 4.7 percent in March.
- Class A and B vacancy rose by 290 and 380 basis points, respectively, over the last 12 months. In a slight contrast, Class C availability elevated 220 basis points to 3.0 percent, the sixth-lowest rate among major U.S. markets.

RENT

5.3% increase in the average effective rent Y-O-Y

- The mean effective rent reached nearly $2,208 per month in March, despite vacancy eclipsing the 4 percent mark for the first time since 2017. This average is more than $500 below other Southern California markets.
- Local Class C rent remains regionally affordable, at an average of $1,567 per month, despite a nearly 13 percent spike over the past year.

Investment Highlights

- Sales activity slowed in the second half of last year, a trend that continued during the initial months of 2023. Nevertheless, the Inland Empire continues to provide active investors with the lowest mean price point among major West Coast markets, with buyers paying an average of $215,000 per unit over the past 12 months. The market was also home to the highest mean cap rate among Southern California metros during the period.
- Amid an overall increase in unit availability, Class C vacancy remains below 3 percent in most of the metro's 12 submarkets. This performance is fueling competition among California-based buyers for smaller complexes at a time when lower-tier rent growth is outpacing the Class A and B sectors. San Bernardino proper and high desert cities off Interstate 15 have recorded the most trading of late, with properties recently closing at 5 percent-plus cap rates and price points below $200,000 per unit.
- The metro's institutional buyer pool is diversifying. Over the past year, investors from outside California accounted for one-third of the $20 million-plus closings across the Inland Empire. Most of these trades involved larger Class B and C assets built at least 20 years ago.

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