

Multifamily Metro Outlook:

Inland Empire - Q1 2022

Overview:

- The Inland Empire's relative affordability combined with a dearth of available units continues to keep the apartment market incredibly tight. During the first quarter of 2022, just under 800 units were delivered to the metro, bringing the vacancy rate up 75 bps over the last quarter to 2.75%. Nonetheless, this is still well below the national average of 4.8%. Considering an average of 300 units are typically delivered to the metro, it would at first glance be tempting to think the surge in deliveries points to signs of future easing. However, after construction essentially came to a standstill in the second quarter of 2020, much of the subsequent activity has been more so reflective of the metro catching up than over-supplying the market.
- Although the market is tight, it doesn't necessarily point to outsized demand for apartments. Thus, rent growth declined from the last quarter down to 1.0%, averaging \$1,900. While this is about half the growth rate that observed around the rest of the country, rents have still advanced by more than 17.5% over the past year.
- Much of this growth was seen across Class A properties, although over the past year rent appreciation has been driven by Class B properties. While both classes saw rents increase by slightly more than 18.0% in the quarter, growth in Class B properties has consistently increased from 3.5% in the third quarter of 2020.
- Continued job growth continues to soften the pandemic's blow to employment, which was less severe than initially estimated. The strength of the recovery in the metro has led to the unemployment rate dropping to 4.9%, down from 7.5% in 2021.

Market Strengths:

- Healthcare will move to the fore as the labor market settles into its rhythm. Healthcare employment levels have already eclipsed pre-pandemic levels, a feat that is still elusive for much of the U.S. Further, above-average population growth, including among elderly cohorts that consume more medical services, will ensure a continued strong performance.

Market Weaknesses:

- The Inland Empire is an ideal logistics hub thanks to its proximity to large population centers, major highways, and two of the largest ports in the country in Los Angeles and Long Beach. Costs are also relatively low by Southern California standards. However, after surging last year, real consumer spending nationwide is expected to taper significantly in the midst of increasing inflation and lingering recession concerns.

Development:

- With just over 4,600 units underway the construction pipeline remains at one of the highest levels seen in at least the past 10 years even though the volume declined by about 300 units compared to last quarter. However, it is common for the metro to go months at a time without any apartment deliveries, so continued waves of exorbitant new supply would be surprising considering the pace of development in the Inland Empire is more akin to smaller Midwestern metros.

Outlook:

- Multifamily Outlook: Steady. The Inland Empire's greatest strength – its logistics industry – also presents its greatest weakness; the land consumption required to maintain the industry's continued growth is seriously impeding the development of the apartment market. While the market will remain tight as a result, rent growth will more than likely remain weak leading to investors placing a greater premium on industrial properties over apartments in the metro.
- Economic Environment: Stable. Even with consumer spending beginning to curtail, the Inland Empire is expected to be one of California's strongest performers over the near future. Logistics will continue to lead the way, with healthcare following up closely behind, and the metro is one of the few place that has benefitted from the pandemic induced migration trends. However, the mix of economic industry is far from competitive enough to translate into significant wage appreciation compared to its in-state peers.

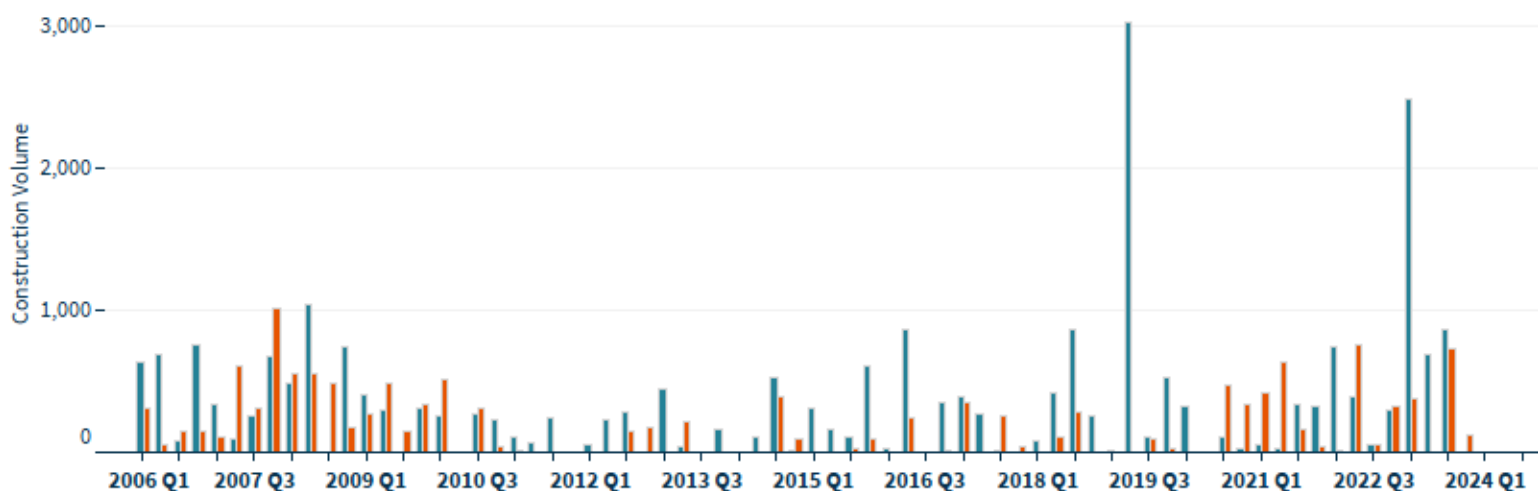
Five Year Metro Area Growth Forecast

	Q4 2021	Q4 2026	Inland Empire (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	4,735	4,941	0.86%	0.47%
Households (000s)	1,481	1,590	1.43%	0.90%
Renting Cohort (Ages 20-34) (000s)	1,010	1,000	-0.21%	-0.30%
Total Employment (000s)	1,559	1,706	1.83%	1.08%
Median Household Income	\$70,033	\$81,352	3.04%	3.30%
Median SF Home Price	\$542,319	\$603,738	2.17%	1.93%
Net Migration	17,036	11,551		

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



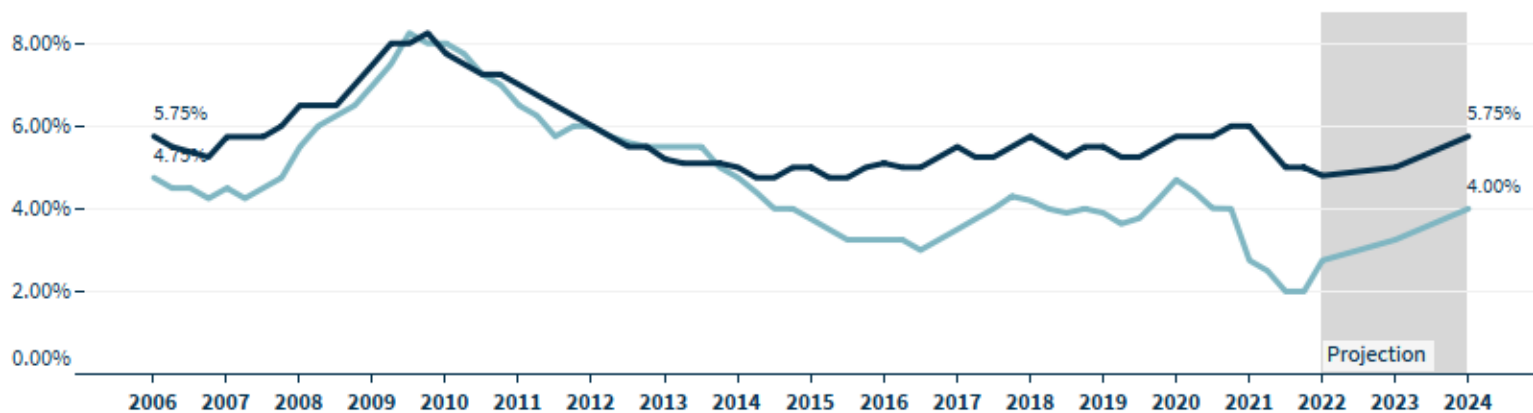
Vacancy & Rent Composite Estimates

Vacancy Rates

Inland Empire | National

Q1 2022 Vacancy Rate:

2.75%

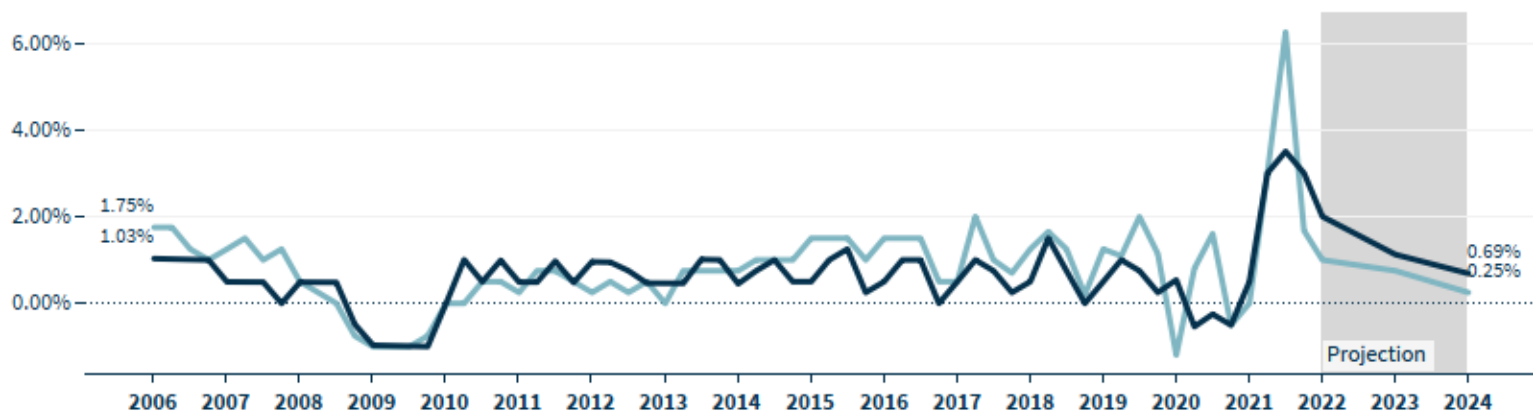


Asking Rent Growth

Inland Empire | National

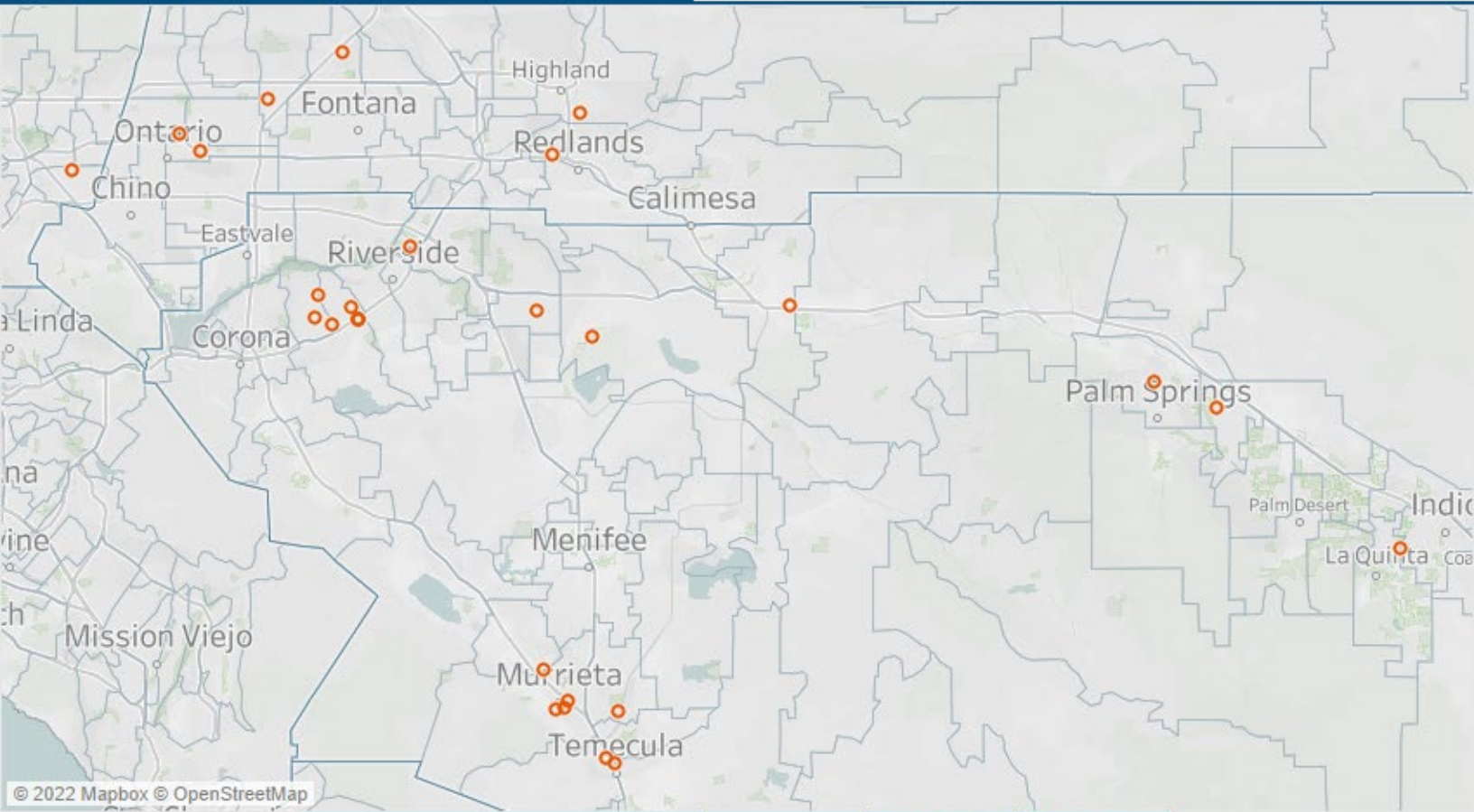
Q1 2022 Asking Rent:

\$1,900



Source: Multifamily Economics and Research

Construction: Bidding & Underway



<i>TWR Submarket Name</i>	<i>Apartments</i>	<i>Building Units</i>	<i>Building Area SF</i>
Coachella Valley	3	304	0.32M
Fontana/Rialto/Colton	1	257	0.25M
Hemet/Perris/Lake Elsinore	1	170	0.20M
North San Gabriel Valley	1	57	0.07M
Ontario/Chino	1	925	1.10M
Rancho Cucamonga/Upland	2	515	0.72M
Redlands	2	408	0.46M
Riverside	8	620	0.74M
San Bernardino	1	200	0.22M
Temecula/Murrieta	6	700	0.58M
University City/Moreno Valley	2	497	0.46M
Grand Total	28	4,653	5.13M

Multifamily: ESR Team

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Sources Used

- Moody's Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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