Fannie Mae

Multifamily Metro Outlook:

Inland Empire – Q1 2023

Overview:
- Despite thriving for much of the pandemic, rising inflationary pressures amid concerns of a potential recession have become a stalwart for economic growth in the Inland Empire. Annual employment growth declined slightly more than -.50% in the first quarter ending 2023. In turn, after declining for six consecutive quarters, the unemployment rate in the metro jumped more than 85 bps in a single quarter to 4.56%.
- Even with the deceleration in employment growth, payroll wages improved by just under 1.9% over the past year, the highest level of growth seen in the past year – which allowed the median household income in the metro to advance 7.0% over last year's levels to just under $84,400, well above the national average of $72,200.
- While inflation has all but eroded the gains in rent growth seen over the past year, demand for apartments in the metro remains as strong as ever, in part due to the high cost of home ownership in tandem with the dearth of development. Single-family housing costs have always commanded a significant premium over rents, so it should hardly come as a surprise that even with lackluster housing price growth, the estimated P&I commands close to a 70% premium over asking rents in the metro.

Market Strengths:
- The Inland Empire is affordable relative to costal California cities, which has led to strong net positive migration. Additionally, the military is also a leading source of jobs and insulates the local economy from broader downturns.

Market Weaknesses:
- Real consumer goods spending remains above its pre-pandemic trend, but gains are quickly slowing. Real incomes have stagnated as inflation soars, and low- and middle-income households have burned through their excess saving amassed during the pandemic to maintain spending. Searing inflation will cool in the coming year and the U.S. labor market will remain strong, but consumer spending will nonetheless slow, limiting job gains in logistics.
- The Inland Empire's greatest strength – its logistics industry – also presents its greatest threat to the apartment market; the land consumption required to maintain the industry's continued growth is seriously impeding multifamily development.

Development:
- There has never been much in the way of multifamily development in the metro, and activity in first quarter ending 2023 was no exception. Slightly less than 780 units were added to the apartment inventory during the quarter. While this activity was on par with levels seen last year, the paltry level of development activity in the metro led to the total number of units underway dropping more than 5.5% over the last quarter to just under 5,600 units – levels more akin to rural areas such as Sacramento than the Inland Empire's southern California counterparts, though it should be mentioned the pipeline remains significantly elevated over pre-pandemic levels.
- The number of Single-Family permits issued during first quarter ending 2023 totaled just over 8,900, a decline of nearly -45.0% from last year's levels. New single-family housing completions totaled 13,130, an increase of 20.2%. The net effect has been a contraction in the overall amount of supply as active listings fell from last quarter's levels to slightly above 40,350.

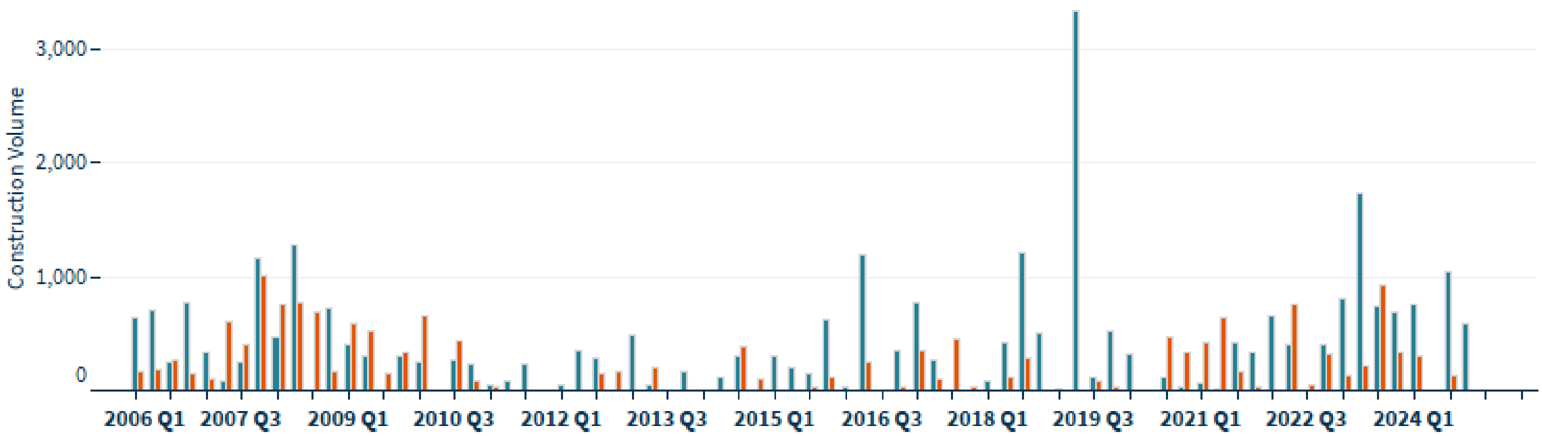
Outlook:
- <u>Multifamily Outlook: Lagging.</u> While the premium on space previously had the unintended benefit of keeping the market artificially tight, it would appear fundamentals have now fully given way to market forces. As such, vacancies in the metro increased for the fifth consecutive quarter, rising 50 bps over last quarter's levels to an average of 4.25%. Although this is still well below the national average, and the rise in vacancies was consistent with increases seen across the rest of the country, it would seem the lack of development activity is only exacerbating easing in the Inland Empire. Thus, it should hardly come as a surprise that rent growth was negative for the second consecutive quarter in Q1 2023, declining by 1.0% over last quarter's levels to an average of $1,950. What's more is that even though the multifamily market is just an eighth the size of the single-family housing market, with the logistics industry placing a huge constraint on available land, developers have little incentive to increase their footprint in the Inland Empire.

Economy:
- <u>Economic Environment: Stable.</u> The Inland Empire will easily outshine the Golden State, as it is expected to be a top performer in California even as growth moderates. Unlike most of California, the population is expanding, besting both the national and regional average, and should continue to fuel job gains, which are expected to remain strong. However, considering the oversaturation of jobs in logistics, the sector is poised to take a breather as consumer goods spending fades. Payroll growth is expected to outperform the nation but given the concentration of low-wage industry in the metro, income gains will underwhelm. Yet, the continued cooldown in employment across higher-wage sectors across the country should allow wage growth in the metro to catch up with the national average.

Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | *Condos*



Source: Dodge Data & Analytics SupplyTrack Pipeline

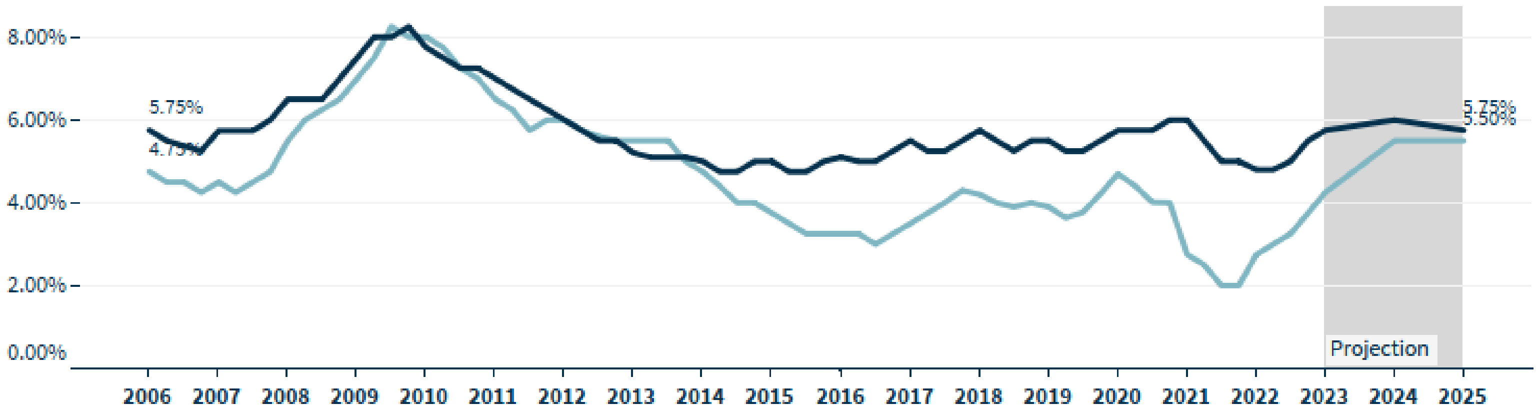
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Inland Empire | *National*

Q1 2023 Vacancy Rate:

4.25%

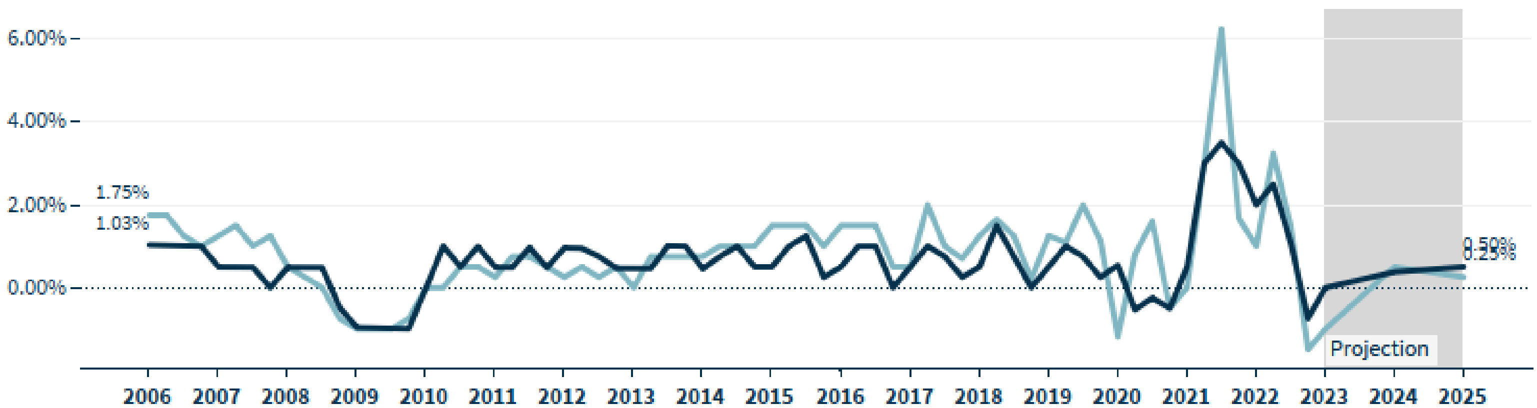


Asking Rent Growth

Inland Empire | *National*

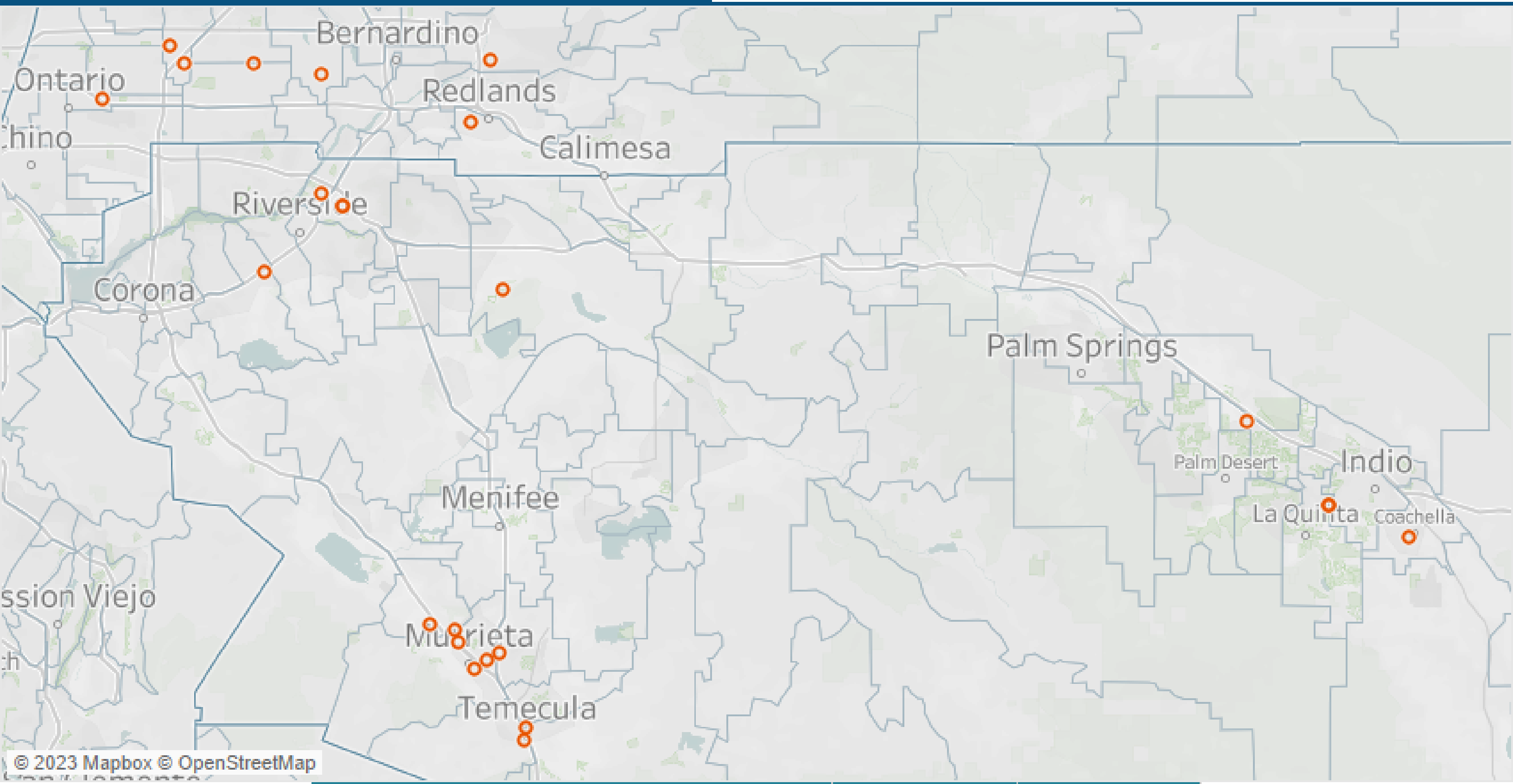
Q1 2023 Asking Rent:

$1,950



Source: Fannie Mae Multifamily Economics and Research

Multifamily Construction: Bidding & Underway



Submarket	Apartments	Building Units
Coachella Valley	4	784
Fontana/Rialto/Colton	2	161
Hemet/Perris/Lake Elsinore	2	89
Ontario/Chino	1	925
Rancho Cucamonga/Upland	2	710
Redlands	1	328
Riverside	2	45
San Bernardino	1	200
Temecula/Murrieta	12	1,841
University City/Moreno Valley	3	495
Grand Total	**30**	**5,578**

Source: Dodge Data & Analytics SupplyTrack Pipeline

Multifamily: ESR Team

We welcome your feedback! Please give us a call or send an email with any comments, suggestions, or insight you may have or information you'd like covered in future editions.

Multifamily Metro Outlook: Inland Empire Q1 2023

Multifamily Economics and Market Research Team

Stephen Gardner, Economic and Strategic Research – Economics – Lead Associate

Sources Used

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

Opinions, analyses, estimates, forecasts, and other views of Fannie Mae's Economic and Strategic Research (ESR) Group included in these materials should not be construed as indicating Fannie Mae's business prospects or expected results, are based on a number of assumptions, and are subject to change without notice. How this information affects Fannie Mae will depend on many factors. Although the ESR Group bases its opinions, analyses, estimates, forecasts, and other views on information it considers reliable, it does not guarantee that the information provided in these materials is accurate, current, or suitable for any particular purpose. Changes in the assumptions or the information underlying these views could produce materially different results. The analyses, opinions, estimates, forecasts, and other views published by the ESR Group represent the views of that group as of the date indicated and do not necessarily represent the views of Fannie Mae or its management.