

Multifamily Metro Outlook:

Inland Empire - Q1 2021

Overview:

- The Inland Empire's relative affordability combined with a dearth of available units continues to exacerbate demand fueled by droves of residents relocating from more populous and expensive metros nearby. As such, the vacancy rate – which trended well below the national average for the entire pandemic – declined by 150 bps to 2.75% in Q1 2021, the lowest rate seen since at least 2006.
- At first glance, however, it would seem the average asking rent of \$1,620 – essentially flat compared to last quarter – has yet to reflect the strength of demand in the metro. Yet, rents are up more than 6.5% compared with last year as a result of asking rents for Class A properties exceeding last year's levels by close to 14.0%, the largest increase among all property classes.
- This is partially attributable to a concession rate of just 3.4% for Class A properties; rent increases were bolstered even further from concession percentages among Class B properties declining almost 2.5 percentage points to 2.7%.
- Further, the hit to employment was less severe than initially estimated, and the subsequent recovery was stronger than expected; more than two-thirds of the jobs lost in 2020 are back, pushing the unemployment rate down to 7.9% in the quarter. While this is still above the national average and remains elevated relative to pre-pandemic levels, it is nonetheless a full percentage point decline over Q4 2020 and provides a strong case for future economic growth in the coming quarters.

Market Strengths:

- The prominence of online retail continues to drive growth in the logistics sector, which has only accelerated due to the pandemic. Retail giants Amazon and Walmart have been steadily expanding their local presence; payrolls increased by more than 20 percent over the last year.

Market Weaknesses:

- While a sharp decline in new coronavirus cases has allowed the states to ease restrictions to begin the year, the recovery has been intermittent, and non-essential business remains on shaky ground. As in most of the nation, tourism has been one of the most heavily impacted industries, however, outside of a few niche cities, the sector is not a large component of the Inland Empire's economy.

Development:

- The tepid pace of development leaves much to be desired – less than 500 units were delivered during all of 2020 and only around 300 or so units have been added to the pipeline, which current stands a hair above 2,220 units and is more akin to a small midwestern metro than a Southern California one.
- This could present a rare but significant threat from the shadow market considering almost 2.5 times the volume of apartments were delivered in the form of condo units, with nearly 1,000 more underway.

Outlook:

- Multifamily Outlook: Steady. The Inland Empire's status as one of the largest logistics hubs presents a unique catch-22; on one hand the prevalence of the industry ensures continued economic growth in the future, however it comes at the expense of large swaths of land consumption, impeding multifamily development. In the near-term this is favorable for rent growth as the industry continues to grow but could have the unintended consequence of diminishing the cost advantage the apartment market enjoys over nearby metros.
- Economic Environment: Stable. Online shopping has established itself as an indispensable industry in the Inland Empire and proven that it can provide the stiffs necessary to keep the economy propped long-term. In turn, the steady influx of migration should provide a self-reinforcing loop that should allow the metro to easily outperform state and national job growth.

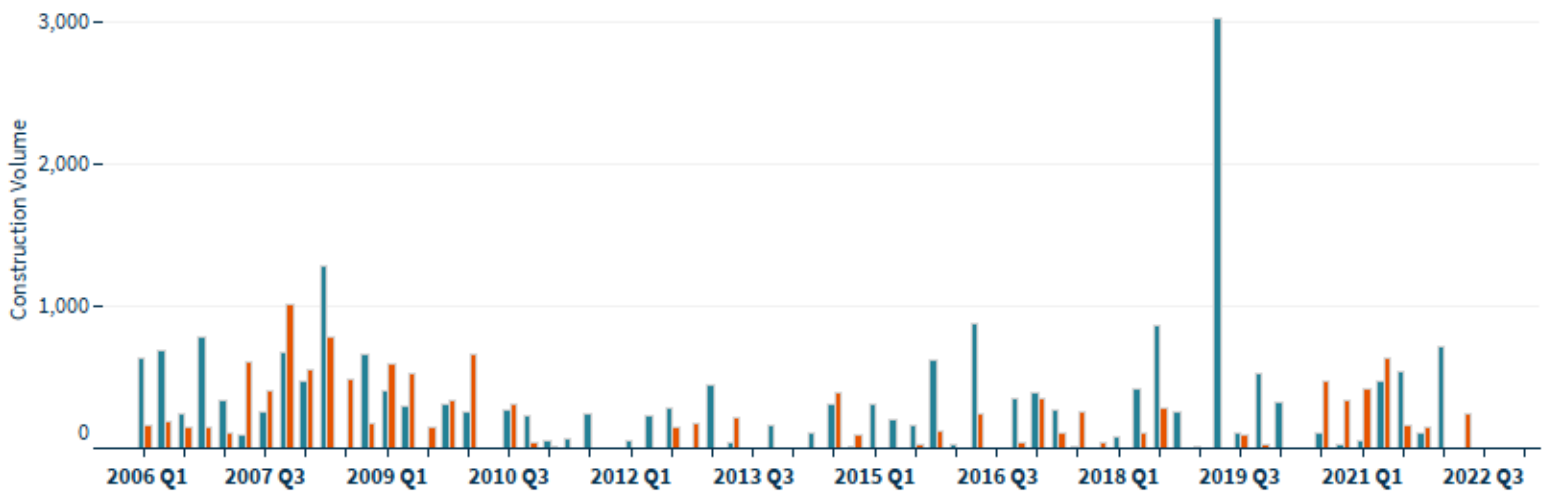
Five Year Metro Area Growth Forecast

| | 2020 | 2025 | Inland Empire (5-Year Annual Average Change) | National (5-Year Annual Average Change) |
|------------------------------------|-----------|-----------|--|---|
| Population (000s) | 4,721 | 4,968 | 1.02% | 0.52% |
| Households (000s) | 1,448 | 1,601 | 2.02% | 1.41% |
| Renting Cohort (Ages 20-34) (000s) | 1,014 | 1,017 | 0.06% | -0.26% |
| Total Employment (000s) | 1,439 | 1,622 | 2.42% | 1.71% |
| Median Household Income | \$68,793 | \$77,235 | 2.34% | 2.83% |
| Median SF Home Price | \$461,025 | \$599,984 | 5.41% | 4.30% |
| Net Migration | 33,747 | 19,305 | | |

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



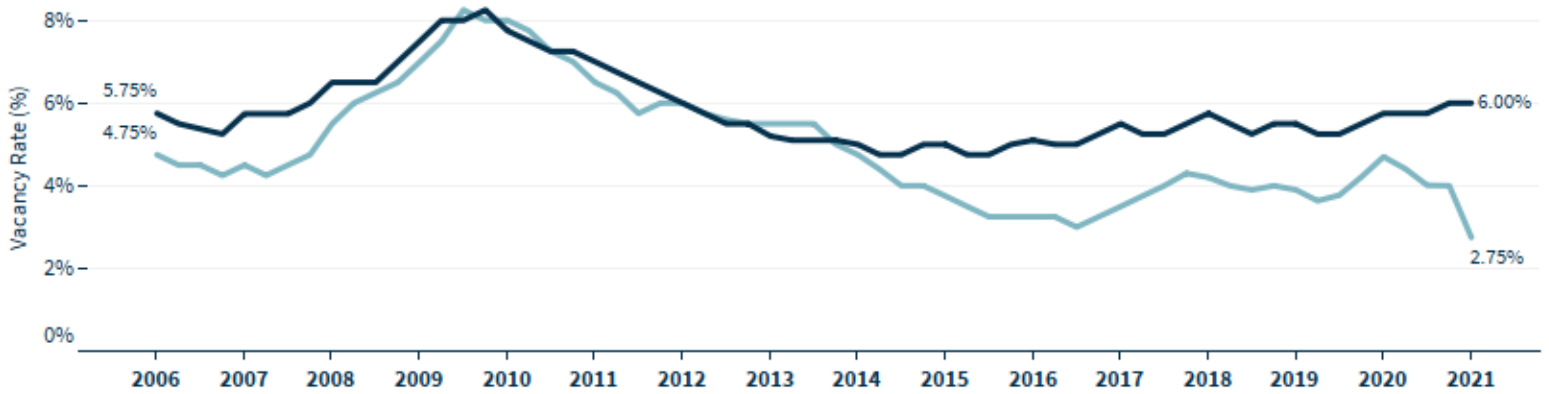
Vacancy & Rent Composite Estimates

Vacancy Rates

Inland Empire | National

Q1 2021 Vacancy Rate:

2.75%

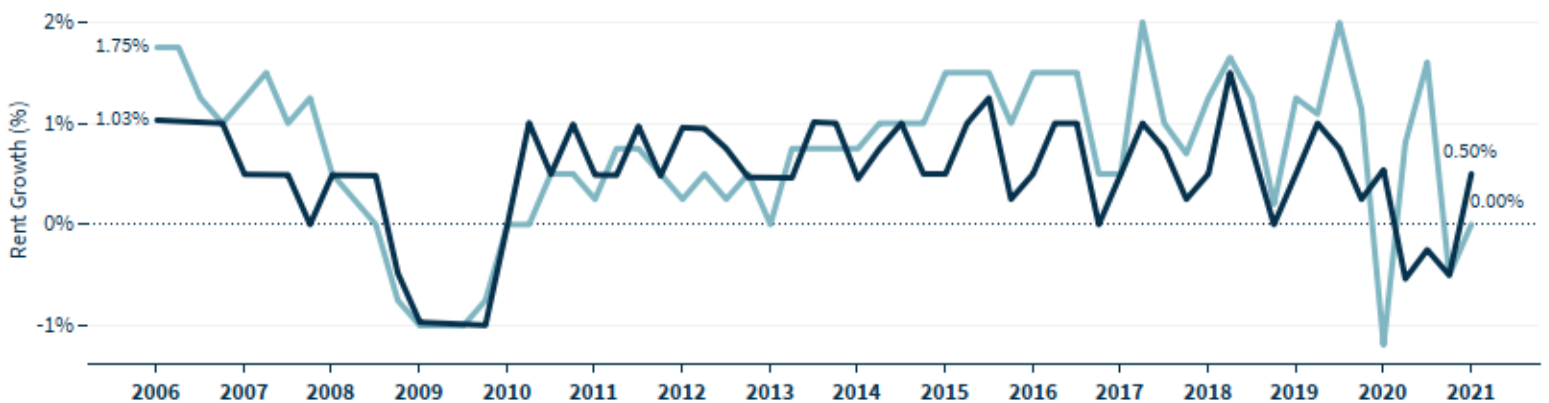


Asking Rent Growth

Inland Empire | National

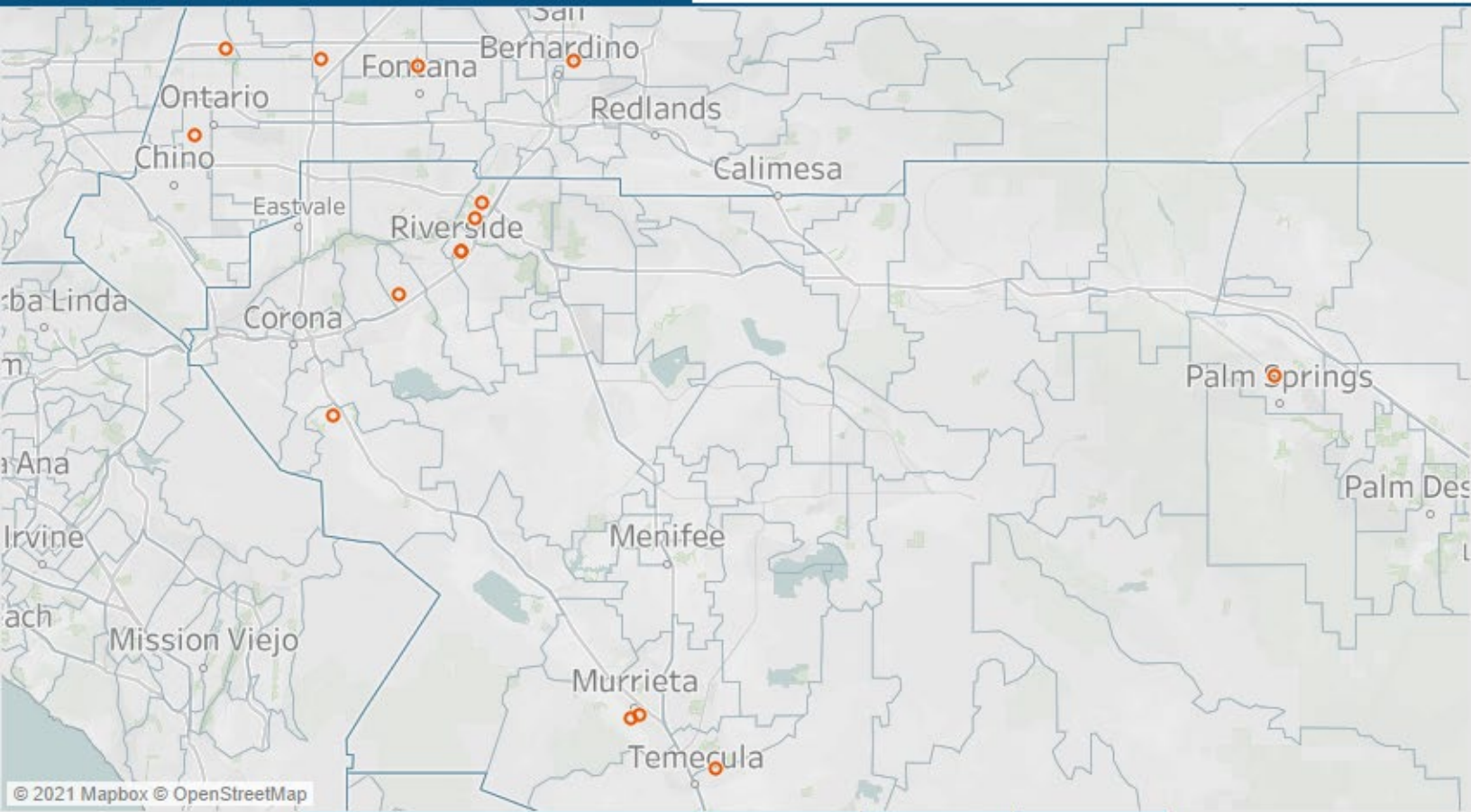
Q1 2021 Asking Rent:

\$1,620



Source: Multifamily Economics and Research

Construction: Bidding & Underway



| <i>Sub-Market</i> | <i>Projects</i> | <i>Units</i> | <i>Sq. Ft. (M)</i> |
|-------------------------|-----------------|--------------|--------------------|
| Coachella Valley | 1 | 16 | 0.02M |
| Corona | 1 | | |
| Fontana/Rialto/Colton | 1 | 60 | 0.06M |
| Ontario/Chino | 1 | 68 | 0.07M |
| Rancho Cucamonga/Upland | 2 | 654 | 0.83M |
| Riverside | 5 | 430 | 0.62M |
| San Bernardino | 1 | 183 | 0.18M |
| Temecula/Murrieta | 3 | 487 | 0.53M |
| Grand Total | 15 | 1,898 | 2.32M |

Multifamily: ESR Team

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Multifamily Economics and Market Research 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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