Multifamily Metro Outlook:

Inland Empire – Q2 2023

Overview:
- The Inland Empire's economy is cooling off faster than the rest of the nation, especially its California peers. Rising inflationary pressures combined with a rapidly rising interest rate environment have become a stalwart for economic growth. Thus, employment growth declined by just under -1.4% in second quarter ending 2023 – the second consecutive quarter of employment contraction. In turn, the unemployment rate increased 88 bps over last year's levels to 4.98%, more than a full percentage point above the national average.
- Even with the deceleration in employment growth, payroll wages continued to improve, rising 6.25% over the past year,. This allowed the median household income in the metro to advance 4.75% over last year's levels to just under $85,000 – well above the national average.
- While inflation has all but eroded the gains in rent growth seen over the past year, the high cost of home ownership in tandem with the dearth of development means that demand for apartments in the metro remains as strong as ever. Single-family housing costs have always commanded a significant premium over rents, yet even with home price values declining relative to last year, the estimated P&I in 1.75 times more expensive than 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 second quarter ending 2023 was no exception. Slightly less than 130 units were added to the apartment inventory during the quarter, half the levels of last year's activity. The paltry level of development activity in the metro means the pipeline remains unchanged this quarter totaling 5,500 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 second quarter ending 2023 totaled just over 12,700, a decline of nearly -8.2% from last year's levels. New single-family housing completions totaled 10,600, a decline of nearly -14.0%. The net effect has been a contraction in the overall amount of supply as active listings fell from last quarter's levels to slightly below 37,000.

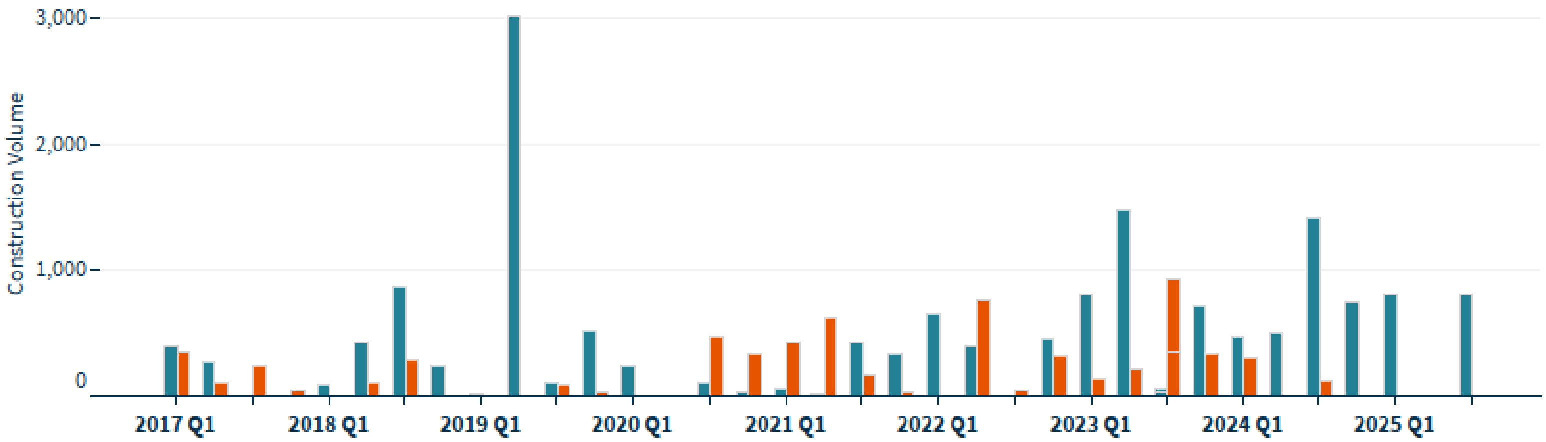
Multifamily Outlook:
- The Inland Empire's premium on space places significant constraints on housing market expansion but has the unintended benefit of keeping apartment fundamentals in check. Thus, vacancies remained flat at 4.25% well below the national average of 5.75%. However, the artificial market tightness did little to improve rents which advanced at a slower pace than the rest of the nation, rising 0.50% from last quarter to an average asking rent of $1,970. What's more is that the disproportionate size of the metro's logistics industry leaves developers with little incentive to increase their multifamily footprint. Especially considering despite offering units at prices on par with the rest of the nation, cap rates in the metro lag the national average by close to 150 bps. As such, it would not be surprising to see the metro continue to ease, but it's still highly unlikely the multifamily market performs significantly worse than the rest of the country.

Economy:
- The Inland Empire will easily outshine the much of the country but remain dim compared to the rest of the Golden State. 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 continue outperforming the nation but given the concentration of low-wage industry in the metro, income gains will be insufficient to overcome inflation. 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

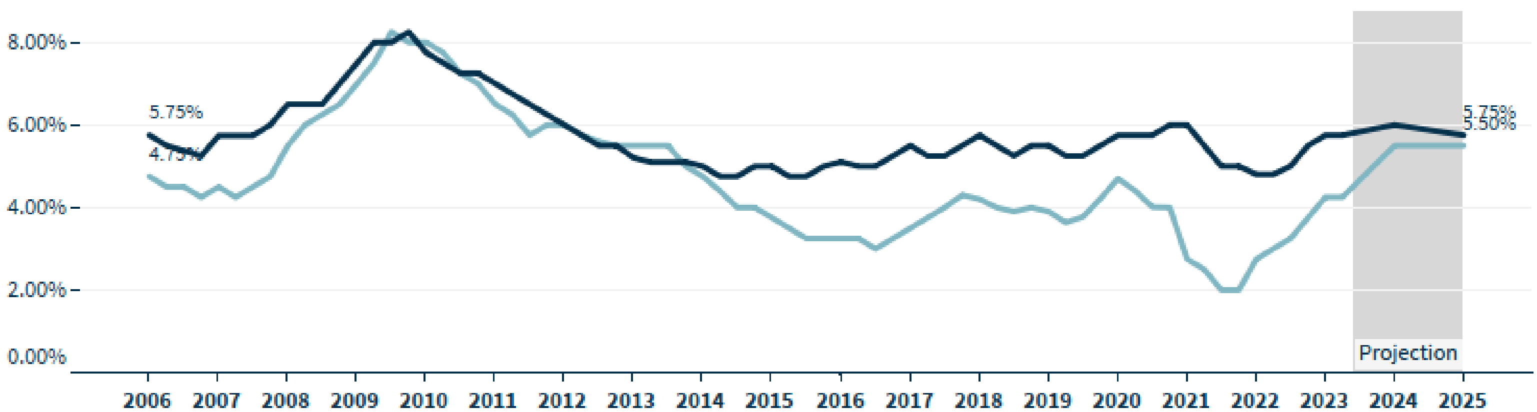
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Inland Empire | National

Q2 2023 Vacancy Rate:

4.25%

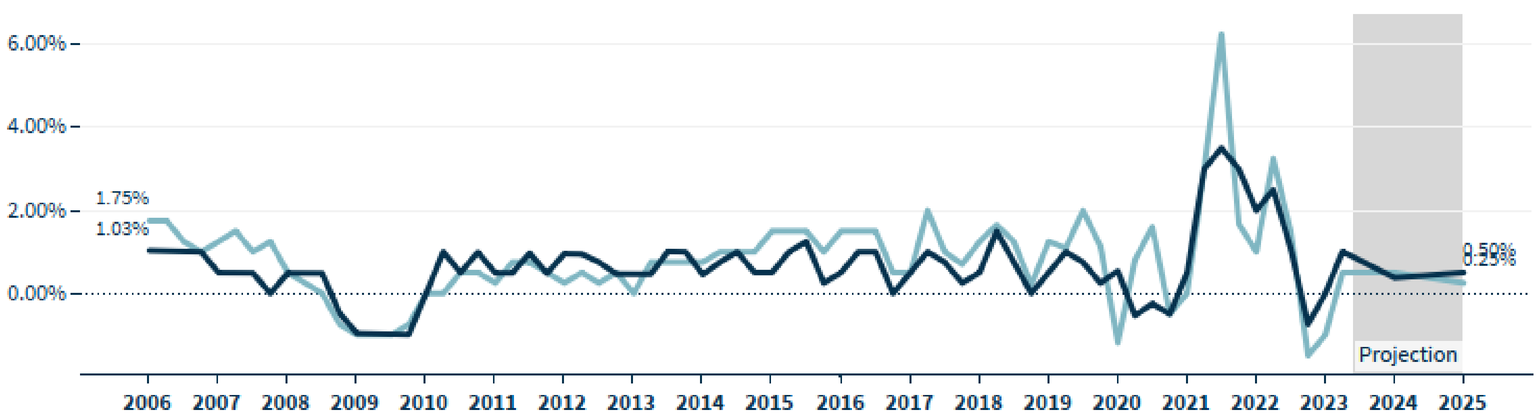


Asking Rent Growth

Inland Empire | National

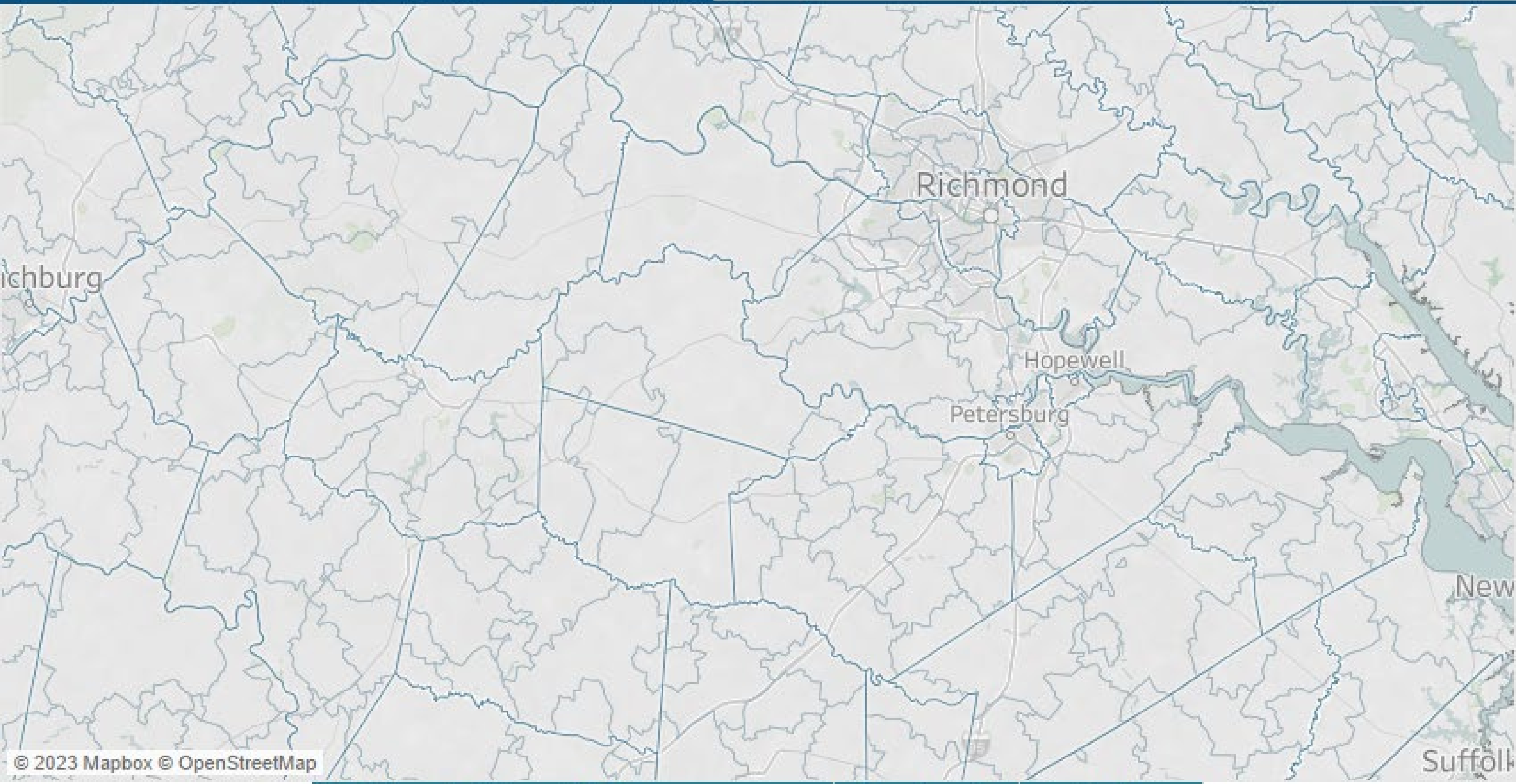
Q2 2023 Asking Rent:

$1,970



Source: Fannie Mae Multifamily Economics and Research

Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Coachella Valley	4	876
Fontana/Rialto/Colton	10	1,333
Hemet/Perris/Lake Elsinore	2	40
Ontario/Chino	2	80
Rancho Cucamonga/Upland	2	710
Redlands	1	328
Riverside	2	515
San Bernardino	2	206
Temecula/Murrieta	5	923
University City/Moreno Valley	3	495
Grand Total	**33**	**5,506**

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: San Francisco Q2 2023

Multifamily Economics and Market Research Team

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Sources Used

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- U.S. Bureau of Labor Statistics
- CBRE-Econometric Advisors
- CoStar
- Dodge Data and Analytics
- Fannie Mae
- Moody's Analytics
- MSCI Real Assets
- RealPage
- Redfin
- REIS
- Yardi
- Zillow