

Multifamily Metro Outlook:

Inland Empire - Q2 2024

Overview:

- The multifamily market continues to strengthen in the metro in 2024, with absorption outpacing generation for the first time since 2021.
- Job growth has rebounded in the metro, and incomes have increased as well, reducing affordability pressures.
- Multifamily generation remains high in 2024, and the pipeline is still large for the metro. Unlike some metros that have seen a construction boom, however, the Inland Empire does not appear to face a large short-term oversupply in the next two years.
- Rent growth is picking up and is slightly outpacing national trends.
- Multifamily sales activity, like much of the nation, is still low and has fallen further than coastal Southern California markets.

Market Strengths:

- Despite surging rents during the pandemic, the metro remains more affordable than coastal California. The metro also has a relatively large population of residents younger than 35.
- Rental affordability pressures have slightly declined, as income growth began to outpace rent growth in Q4 2023.
- The economic base of transportation and warehousing is expected to remain strong in the future due to the continued rise of e-commerce, though the gains will depend on consumer spending levels.
- The metro is home to several large military installations, including Fort Irwin and March Air Reserve Base. Congress increased military funding 3% for FY 2024, which will provide an additional economic boost to the area.

Market Weaknesses:

- For-sale home prices are relatively low in the metro, making homeownership more attainable for moderate-income households who would be renters in high-cost markets. The geographic enormity of the metro makes housing generation relatively easy, limiting supply pressures.
- Like other California metros, AB 1482 now brings older rental properties (those built prior to 2004) under rent stabilization, limiting rent increases to the lesser of 5% above inflation or 10%.
- The pipeline is largely class A properties, which may face weak demand in the next year, given for-sale affordability and the limited number of high-paying jobs expected to be created in the transportation and warehousing sector. However currently demand for luxury rentals is adequate.

Development:

- Relatively large numbers of apartments (around 3,000) were added in 2023, and over 2,500 additional units are expected to be delivered in 2024. This surge in development started in reaction to the population growth from moves from coastal cities during the pandemic. While this exodus has slowed, demand is expected to match supply growth for 2024.
- Multifamily construction starts slowed in 2024, with less than 1,000 units started in the first half of 2024. This is a substantial decline from the 4,400 multifamily units started in 2023. However, the total multifamily pipeline is around 5,900 to 8,500 units, which is near or exceeds record levels for the metro.
- Build-to-rent comprises a small but increasing share of development. There are over 5,000 units of BTR in the metro and an additional 2,750 units in the pipeline.

Multifamily Outlook:

- Multifamily Outlook: The economic fundamentals of the metro are expected to be generally favorable for multifamily performance in 2024 and 2025. Job growth among moderate earners, many of whom are likely to be younger adults, is expected to be robust. Like many other metros, a relatively large multifamily pipeline has boosted vacancy rates off historic lows in 2021 and 2022, but net absorption is expected to be positive in the latter half of the year and into 2025. Rent growth will likely face not only a supply headwind, but also demand headwinds, as in-migration from coastal California is expected to slow, and affordability pressures on current tenants are likely to remain high. Still, rent growth is expected to be competitive through 2026.

Economy:

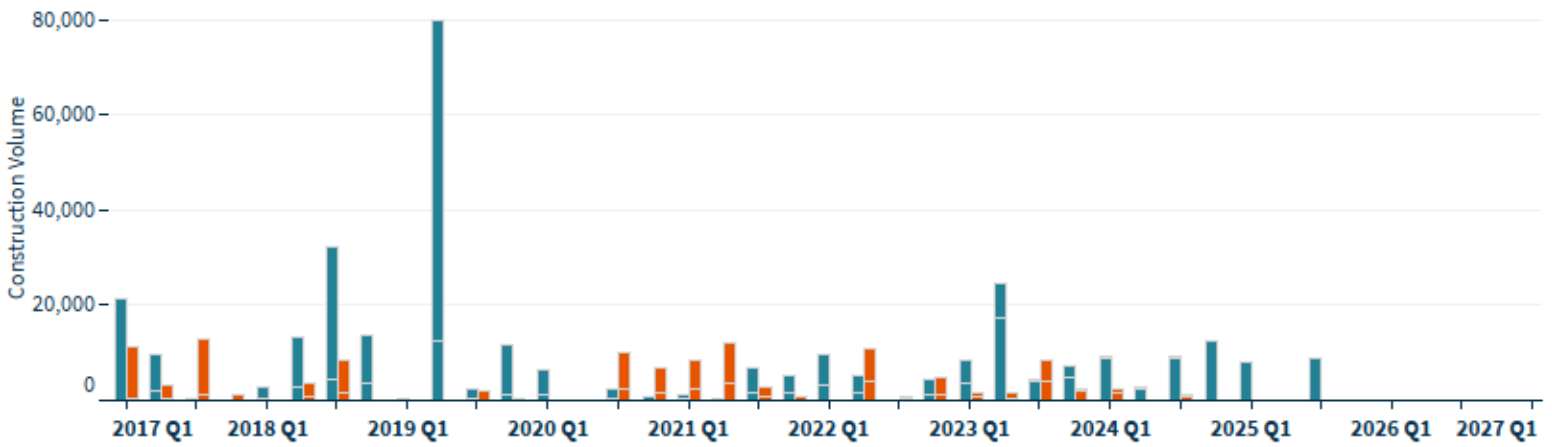
- Economic Environment: Job growth outpaced both U.S. and California averages over the past 12 months, and, unlike national averages, growth appears to be steady or accelerating in the first half of 2024. Transportation and warehousing are major drivers of the local economy, boosted by continuing gains in e-commerce. The redevelopment of Ontario Ranch into a logistics hub is under way, which will bring additional jobs and likely boost local demand. Shifts in consumer spending and e-commerce have an outsized impact on the metro. The region also has a relatively large number of retirees and has regional tourist destinations, such as Palm Springs. Construction of a high-speed rail connecting Rancho Cucamonga to Las Vegas began this year, a project that is expected to generate 11,000 jobs and \$5 billion in spending in the metro.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

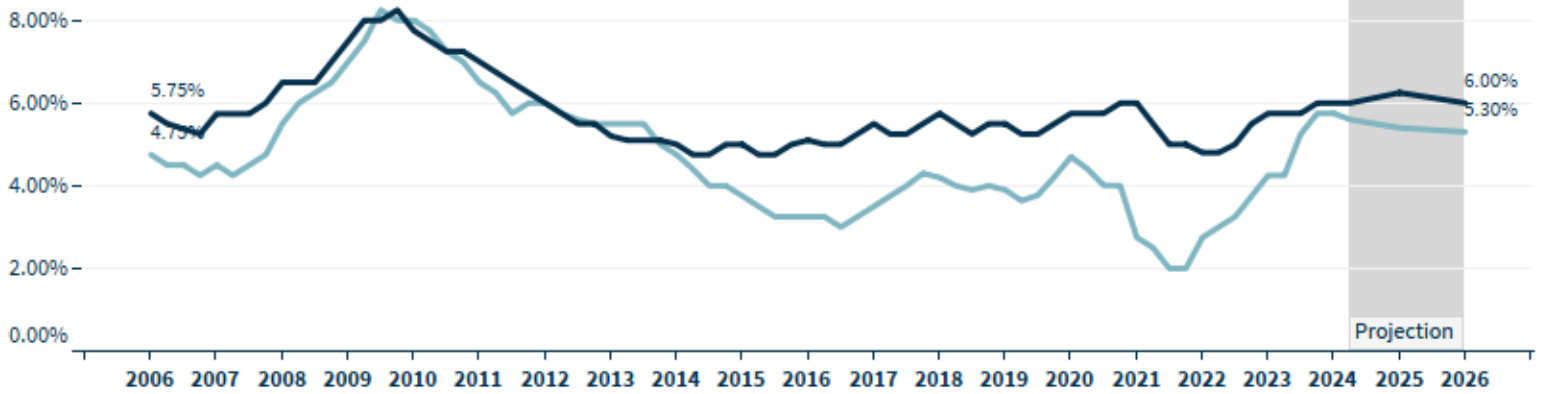
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Inland Empire | National

Q2 2024 Vacancy Rate:

5.60%

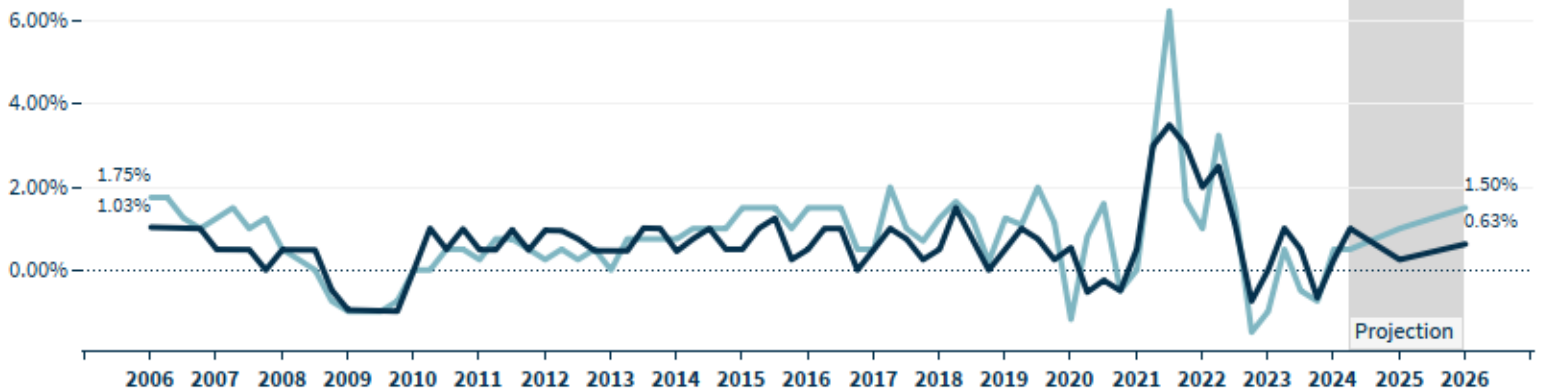


Asking Rent Growth

Inland Empire | National

Q2 2024 Asking Rent:

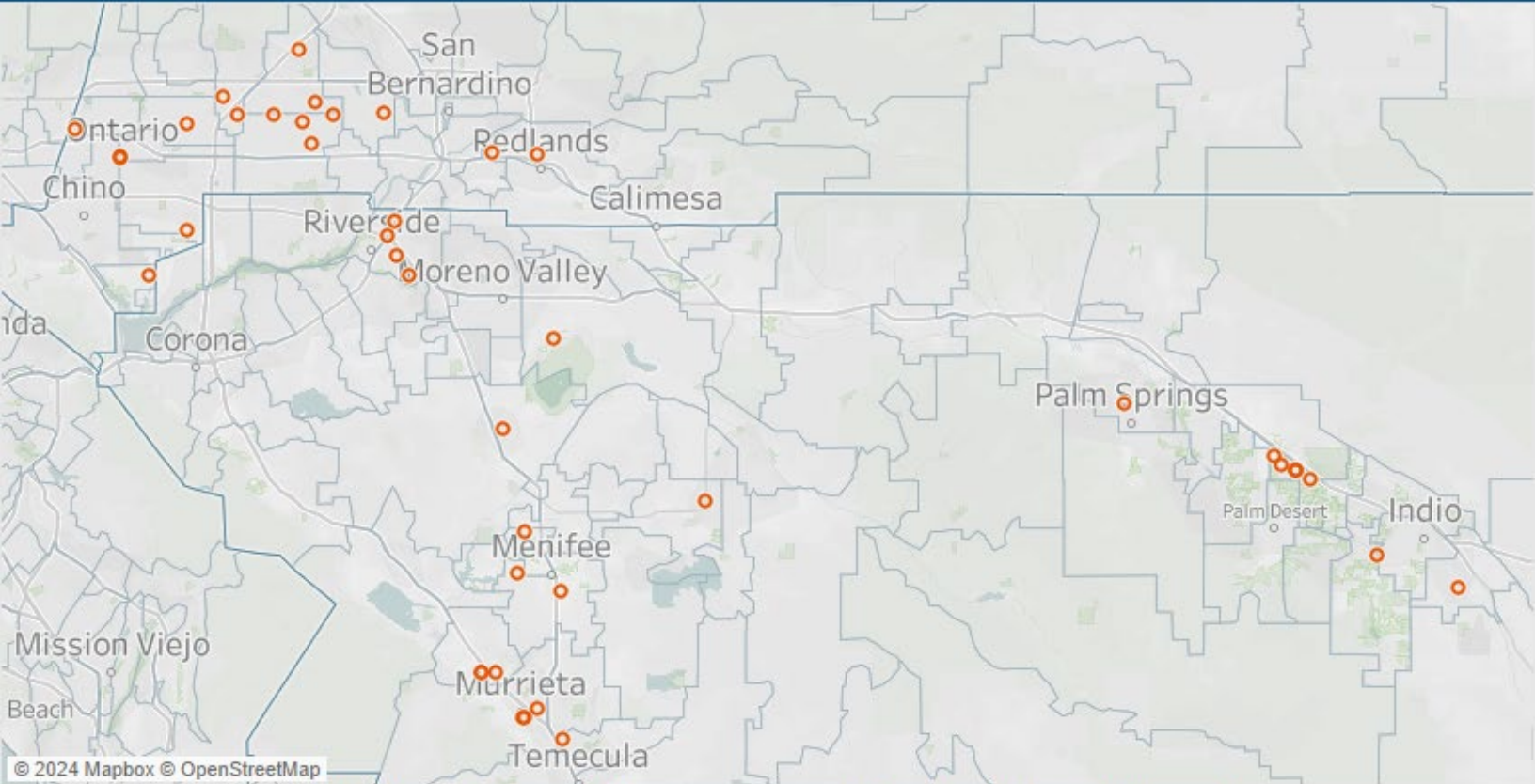
\$2,020



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



<i>MultiHousingSubmarketName</i>	<i>Apartments</i>	<i>Units</i>
Coachella Valley	9	1,802
Fontana/Rialto/Colton	7	1,195
Hemet/Perris/Lake Elsinore	8	1,233
Ontario/Chino	5	772
Rancho Cucamonga/Upland	3	958
Redlands	2	360
Riverside	2	521
Temecula/Murrieta	4	1,190
University City/Moreno Valley	3	700
Grand Total	43	8,731

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

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

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