

INVESTMENT FORECAST

Marcus & Millichap

MULTIFAMILY

Riverside-San Bernardino Metro Area

2024

Regional Affordability Continues to Expand the Local Renter Pool; Investors Broaden Their Boundaries

Most cities lack near-term completions, despite metro's elevated delivery volume. Based on its mean effective rate and median income, the Inland Empire is the only Southern California market where a household contributes less than one-third of its annual earnings toward rent. Attracted to this regionally lower cost-of-living, a number of households and individuals relocated to the metro over the past two years, with just six other major U.S. markets adding more residents during the interval. Population growth continues this year, a boon for a metro with 5-plus percent vacancy across property tiers and a historically large near-term delivery slate. Fortunately, the latter is not the result of widespread development. Instead, completions are concentrated in Temecula-Murrieta and to a lesser extent the cities of Fontana and Moreno Valley. This dynamic, coupled with resident expansion, should improve demand for existing units in other areas of the expansive two-county metro, supporting positive net absorption.

Central and outlying assets each prove appealing. Inland Empire deal flow was well dispersed last year, with at least 33 cities recording closings. As the local populace continues to expand, and more outlying areas register notable resident gains, the distribution of sales may further diversify. Accounting for one-third of San Bernardino County trading last year, Mojave Desert cities including Victorville are attracting more Southern California-based investors. Here, the average rent is around \$1,600 per month and Class C assets have recently been acquired for less than \$150,000 per unit. Buyers targeting larger, central areas with below-average rents should be most active in San Bernardino proper and Fontana this year. Here, Class B and C complexes can be obtained for less than \$250,000 per door. Elsewhere, Ontario and Riverside proper's sizable renter pools and minimal construction pipelines should improve each area's demand outlook, eliciting investment.

2024 MARKET FORECAST

+0.4%



EMPLOYMENT: Labor sectors whose workers historically slot into the renter pool will drive hiring activity during 2024, with the Inland Empire's overall job count expanding by 6,000 roles.

3,100 units



CONSTRUCTION: Delivery volume reaches a 17-year high in 2024 as the number of units added to stock exceeds San Diego's total and nearly matches that of Orange County.

+20 bps



VACANCY: After rising 460 basis points over the prior two years, the pace of vacancy increase slows significantly in 2024. Still, at 6.2 percent, the rate is 170 basis points above the metro's long-term mean.

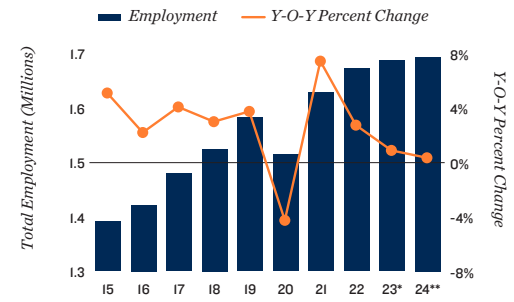
+2.3%



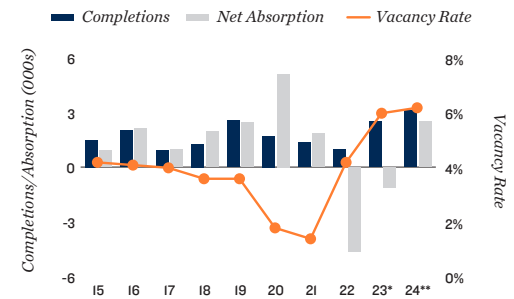
RENT: Positive net absorption supports a 15th straight year of rent growth. This lifts the mean effective rate to \$2,270 per month, a metric at least \$600 per month below other Southern California markets.

INVESTMENT: Home to locally tight vacancy, minimal construction and above-average rent growth. Coachella Valley will register a level of investor attention that may support a diverse group of closings this year.

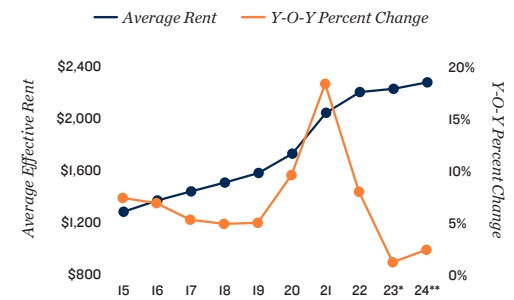
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2023. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.