

## **What's Happening in the Inland Empire Apartment Market**

### **By Hendricks & Partners**

#### 2006 REVIEW

Local non-farm employment registered a healthy 2.5% year-over-year increase in December on the net addition of approximately 30,000 jobs, as strong rental demand supported steady overall progress in the local apartment market.

- Apartment demand enjoyed another solid year, absorbing 2,575 units during the course of 2006, a marked increase from the year-prior total of 2,231 units.
- New apartment construction delivered 3,791 units in 2006, compared to 4,296 units delivered in 2005. New construction was concentrated in the city of Rancho Cucamonga (1,472 units) and the Moreno Valley (1,196 units).
- Multifamily construction permits were awarded to 3,947 units during the year, a slight decrease from 4,232 units permitted in 2005.
- The overall average apartment vacancy rate rested at 5.4% in the fourth quarter, similar to the year-earlier rate of 5.5%.
- Despite a burst of new construction, the market's average apartment rent rose 4.2% over the year-ended December, rising from \$1,074 to \$1,118.

#### FORECAST 2007 / 2008

##### ECONOMY

Highlighted by the region surpassing the four million residents mark in mid2006, job growth continues to spur rapid in-migration, essentially supporting high housing demand throughout the region. According to a recent study conducted by American Cities Business Journals, the Inland Empire region is the sixth hottest job market in the nation, with the area's growing population attracting a plethora of new financial institutions, attorneys, health care, and high-tech companies into the local economy. Aided by robust hiring activity at Home Depot and UPS, as well as within the local trade / transportation / utilities and professional/business service sectors, non-farm employment in the Inland Empire will increase 2% to 5% annually over the next two years, adding approximately 70,000 jobs by the close of 2008.

##### DEMAND / SUPPLY

Persistent population and employment growth along with new household formation will continue to bolster housing demand throughout the Inland Empire. With waning competition from the local for-sale residential market, intense demand will keep local apartment absorption levels above average, absorbing 2,500 units in 2007 and another 2,000 units in 2008. Following two years of record-level construction, new apartment construction will bring approximately 3,000 apartment units online in 2007, before a slowing construction pipeline adds 1,500 units in 2008. Through 2008, apartment

development will remain particularly strong in southwestern Riverside County and in the cities of Ontario and Rancho Cucamonga in San Bernardino County.

#### OPERATIONS

Despite strong demand, an active multifamily construction pipeline has overwhelmed the area's tenant base in the past two years, leading to higher vacancy rates. However, apartment vacancies will essentially remain stable through the first half of 2007, at around 5.5%. As the pace of new development slows, apartment owners will see a significant decline in vacancies in the second half of 2007 and beyond, dipping to 4.5% or lower. Despite firm vacancy rates in the short-run, local apartment operators will continue to see an upward trend in apartment rents, likely producing increases of 4% to 5% annually over the next two years.

#### INVESTMENT MARKET

Pursuing affordable and available land for residential and commercial projects in the Inland Empire, developers have shifted their search north into the High Desert area, specifically to the city of Victorville. Most recently, Burlington Northern Santa Fe Railway Co. announced plans to construct a 300-acre, \$450 million intermodal rail yard facility at the Southern California Logistics Airport, the site of the former George Air Force Base in Victorville. Local officials predict the development will spur additional growth in the new 3,500-acre Southern California Rail Complex, located within the logistics airport. At full build-out, the rail complex will feature more than 20 million square feet of distribution and manufacturing space, and add more than 20,000 logistics and transportation jobs to the local economy.

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