

Renter demand strong enough to hold area vacancies steady

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **5,031**

UNITS DELIVERED **2,070**

MARKET FUNDAMENTALS



VACANCY RATE **3.5%**

YEAR-OVER-YEAR CHANGE **+30bps**

ASKING RENTS **\$2,503**

YEAR-OVER-YEAR CHANGE **0.2%**

TRANSACTION ACTIVITY (YTD)



MEDIAN SALES PRICE **\$387,200**

HIGHLIGHTS

- Operating conditions in Orange County recorded a modest improvement during the third quarter with asking rents ticking higher and vacancy holding steady. Developers remain active in the region with 2,070 units completed year to date.
- The local vacancy rate remained unchanged at 3.5 percent during the third quarter. Year over year, the rate increased by 30 basis points.
- Rents have remained in a tight range and rose just 0.3 percent during the third quarter to \$2,503 per month. Year over year, area rents rose 0.2 percent.
- Multifamily sales activity in Orange County accelerated in recent months although deal volume so far in 2023 remains well below last year's levels. The median sales price year to date is \$387,200 per unit, while cap rates averaged 5 percent during the third quarter.

ORANGE COUNTY MULTIFAMILY MARKET OVERVIEW

The multifamily market in Orange County remains in a solid position with rents and vacancies closely tracking year-earlier levels. The local vacancy rate is one of the lowest in the nation, finishing the third quarter at 3.5 percent. These consistently tight conditions are supporting new construction; multifamily developers have delivered 2,070 units year to date, with another 5,000 units currently under construction. Although no significant completions are expected before the end of 2023, it will take a few years for developers to deliver the projects that are already under way. New development is heavily concentrated in Irvine, due to its prominence as Orange County's central business and retail hub, in combination with its land development opportunities.

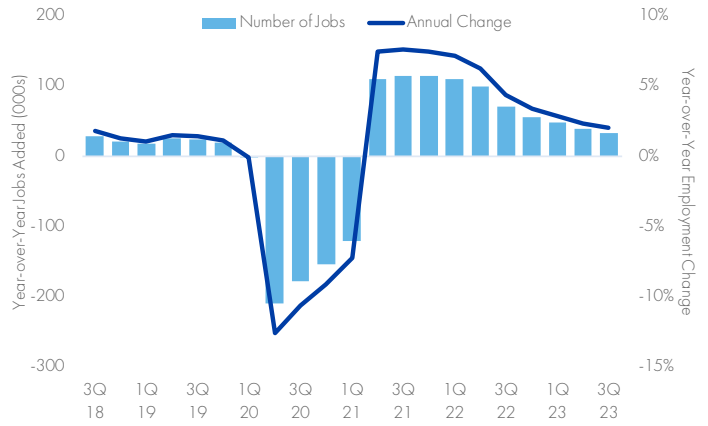
Although multifamily sales activity picked up a bit during the third quarter, higher capital costs continue to drag on the overall investment market in Orange County. The total number of deals to this point in 2023 is down 50 percent from the same period last year. Despite fewer properties changing hands, pricing has strengthened to this point in the year, as a handful of newer, Class A assets traded during the third quarter. The median sales price year to date is \$387,200 per unit, up 5 percent from last year's figure. Typically, investment opportunities in Orange County attract a diverse mix of both private investors and large institutional players, a trend that continued in recent months.

EMPLOYMENT

- Employers in Orange County continue to add jobs at a healthy pace as total employment expanded by 9,500 positions in the third quarter. Year over year, the local labor market grew by 33,400 workers, a 2 percent gain.
- Healthcare continues to expand at a far faster rate than the overall employment market. During the past 12 months, the sector grew by 5.5 percent and added 11,900 workers.
- Apple will be expanding its presence in Irvine by leasing 55,700 square feet in the Irvine Spectrum submarket. The new lease is expected to begin in 2024, and the expanded space will primarily be used to develop the company's cell phone chip manufacturing capabilities. Apple previously leased 115,300 square feet at the same campus in 2022.
- **FORECAST:** Employers in Orange County are expected to continue adding jobs in the final months of the year. Total area employment is projected to grow by 30,000 positions in 2023, an annual gain of 1.8 percent.

Year over year, the local labor market grew by 33,400 workers.

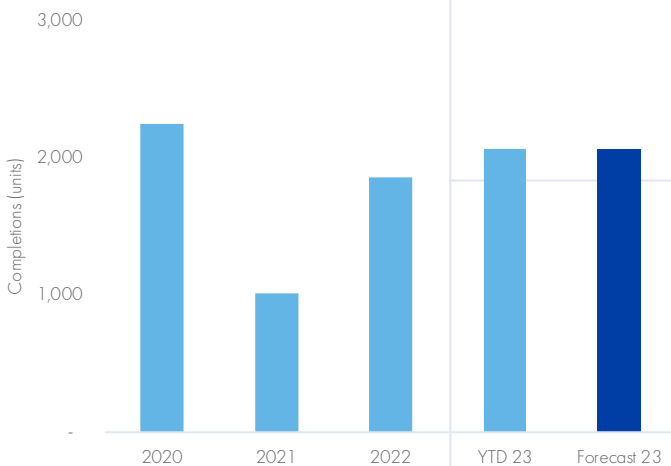
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling more than 5,000 units are currently under construction.

DEVELOPMENT TRENDS



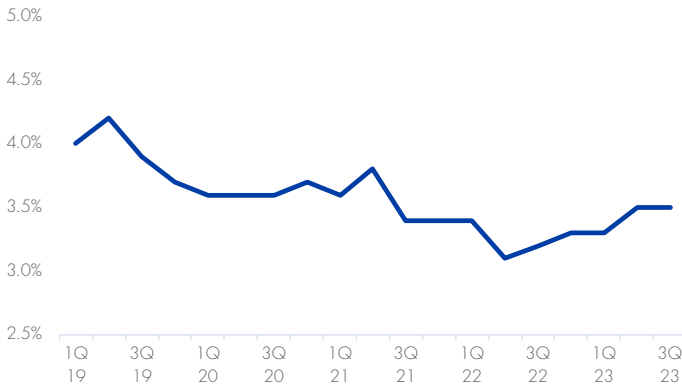
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- The pace of multifamily deliveries picked up slightly in recent months. Apartment developers in Orange County completed nearly 880 units during the third quarter bringing the year-to-date total to 2,070 units.
- Projects totaling more than 5,000 units are currently under construction throughout the region, up 22 percent from one year ago. While new development is occurring in a variety of submarkets, Irvine accounts for more than half of the total units that are in the construction pipeline.
- Multifamily permitting activity held mostly steady in recent months as developers pulled permits for more than 1,100 units during the third quarter. Approximately 3,130 permits have been issued year to date, down 10 percent from the pace established in 2022.
- **FORECAST:** No significant deliveries are scheduled in the closing months of the year. Projects totaling 2,070 units have come online so far in 2023, with approximately 3,000 units slated for completion in 2024.

Year over year, local vacancy increased by 30 basis points.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

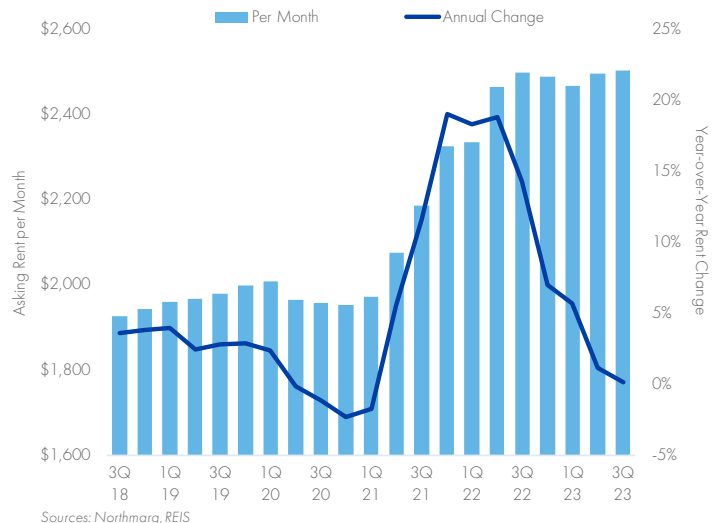
- Vacancy conditions in Orange County were stable during the third quarter, as the rate finished the period at 3.5 percent, matching the figure from the second quarter. Year over year, local vacancy increased by 30 basis points.
- Historically, the vacancy rate in Orange County typically remains within a fairly tight range between 3.2 percent to 3.8 percent. During the past 10 years, area vacancy averaged 3.5 percent, matching the current figure.
- The vacancy rate is tightest in Class B and Class C properties, as affordability remains a primary concern for local renters. The combined vacancy in mid-tier and lower-tier units rose 10 basis points during the past year to 2.1 percent.
- **FORECAST:** With development activity expected to be light in the coming months, the vacancy rate should tick slightly lower in the fourth quarter. Area vacancy is expected to finish 2023 at 3.4 percent, up 10 basis points for the full year.

RENTS

- Apartment rents in Orange County inched higher in recent months, rising 0.3 percent during the third quarter to \$2,503 per month. During the past 12 months, local rents increased by a modest 0.2 percent.
- Irvine is the most populous submarket in Orange County and also features some of the most expensive rents in the region. Asking rents in Irvine finished the third quarter at \$3,096 per month, nearly identical to levels from one year ago.
- Prior to the volatility of the last few years, local apartment rents rose at a fairly consistent pace. Annual rent growth averaged 3.5 percent from 2015 to 2019.
- **FORECAST:** Asking rents should continue to tick higher for the remainder of the year. Apartment rents in Orange County are expected to reach roughly \$2,515 per month by the end of 2023, an annual gain of 1 percent.

During the past 12 months, local rents increased by a modest 0.2 percent.

RENT TRENDS



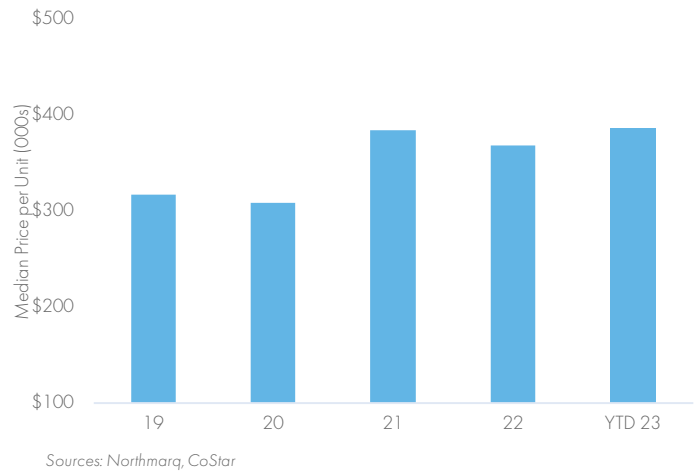
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Multifamily investment activity gained momentum in recent months as the number of deals during the third quarter nearly matched levels recorded in the previous two quarters combined. Despite the recent rise, sales volume year to date is down 50 percent from last year’s pace.
- Sales prices pushed higher during the third quarter, as a handful of newer, Class A properties changed hands. The median sales price thus far in 2023 is \$387,200 per unit, up 5 percent from the median price last year. Since the end of the second quarter, the median price has spiked to approximately \$415,000 per unit.
- Cap rates continued to tick higher in Orange County during the third quarter. Most properties are selling with cap rates between 4.5 percent to 5.5 percent, roughly 100 basis points higher than at the start of the year.

The median sales price thus far in 2023 is \$387,200 per unit.

INVESTMENT TRENDS



RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

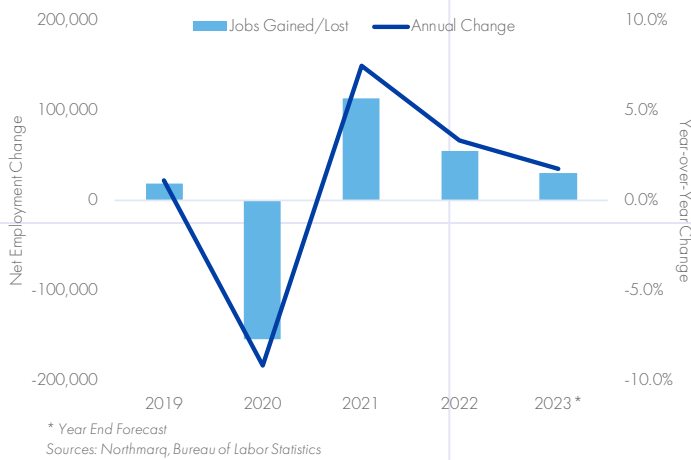
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Broadstone Cavora	26033 Cape Dr., Laguna Niguel	348	\$153,250,000	\$440,374
Nineteen01	1901 E 1st St., Santa Ana	264	\$102,900,000	\$389,773
Surf House	7701 Warner Ave., Huntington Beach	264	\$96,000,000	\$363,636
Union Place	1500 Cherry St., Placentia	125	\$63,150,000	\$505,200
Orange Grove Apartments	205 S McCoy Rd., Orange	78	\$30,000,000	\$384,615

LOOKING AHEAD

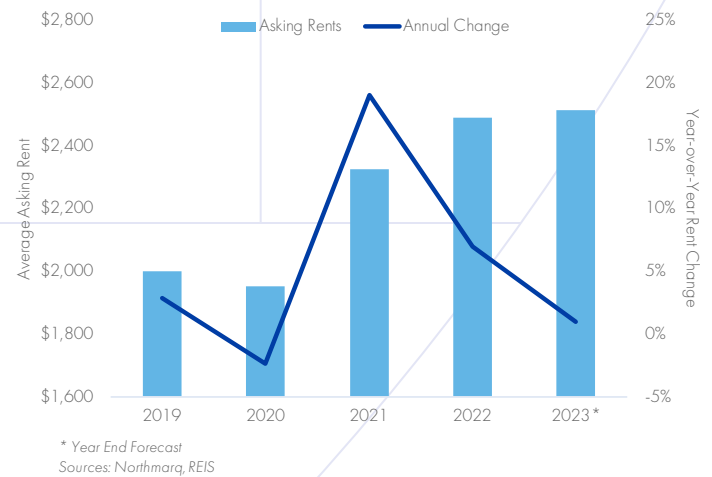
Orange County's recent performance reflects healthy underlying supply and demand fundamentals that will remain in place as the local economy records steady growth. The local vacancy rate is tight enough at 3.5 percent to allow for any future deliveries to lease-up at a healthy pace. While more than 5,000 multifamily units are currently under construction throughout the region, no significant projects are scheduled to come online in the fourth quarter, which could allow for some additional near-term strengthening in fundamentals. The pace of deliveries is expected to gain momentum in 2024 with more than 3,000 apartment units slated for completion next year. Although apartment rent growth tapered off this year, the pace of growth should resume more typical annual increases of around 3.5 percent in 2024.

Although overall sales activity in Orange County still remains limited compared to recent years, an uptick in transactions during the third quarter is a positive sign for the region. Going forward, solid property fundamentals and healthy vacancy conditions will continue to attract investors to this Southern California market. There likely will be a handful of Class A deals in the Irvine area in the next 24 months, where much of the new development is concentrated. The pace of sales should return to more typical levels at some point in 2024 and 2025 as interest rates begin to retreat and rent growth rebounds. Cap rates are likely near their cyclical peak and not expected to top the low-5 percent range.

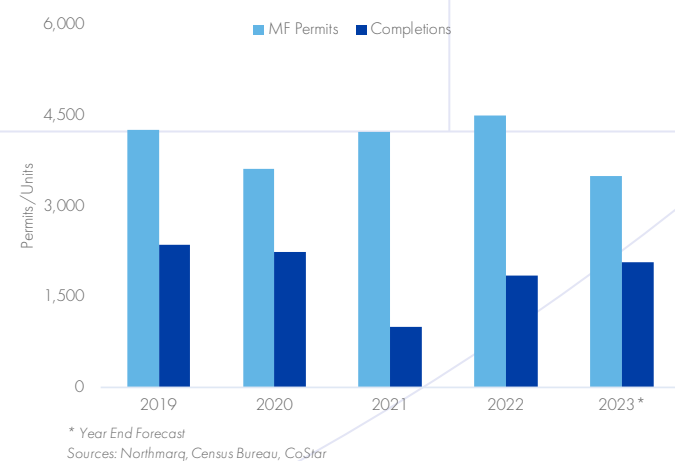
EMPLOYMENT FORECAST



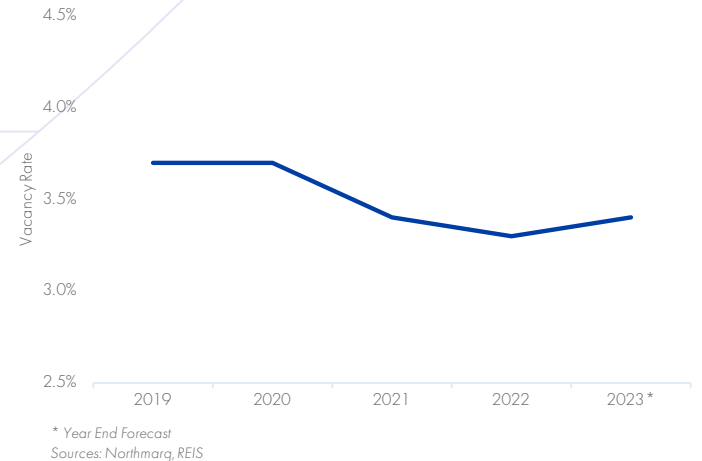
RENT FORECAST



CONSTRUCTION & PERMITTING FORECAST



VACANCY FORECAST





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