

Orange County Multifamily

Steady Apartment Performance Prevails in Orange County

Highlights

- > The Orange County multifamily market was very steady during the first quarter of 2019. Vacancy was unchanged from the preceding quarter and rents rose. The pace of deliveries slowed, but there are several projects that are slated to be delivered in the coming quarters.
- > Vacancy held steady at 4 percent, matching the rate from both the third and fourth quarters of 2018. The current rate is 30 basis points higher than one year ago.
- > Rent growth in Orange County continues to rise at a consistent pace. Asking rents have advanced 3.4 percent year over year, ending the first quarter at \$1,961 per month.
- > Sales activity in the first quarter lagged levels from preceding periods. The median price in the first quarter was approximately \$235,800 per unit, while cap rates averaged 4.4 percent.

Orange County Multifamily Market Overview

Consistency was the prevailing trend in the Orange County multifamily market at the start of 2019. Vacancy was flat during the first quarter, and rents remained on the same upward trajectory that has been in place for the past several years. This predictable operational performance is continuing to fuel multifamily development. This year will mark the fourth consecutive year where developers will bring online more than 3,000 new apartment units in Orange County. In recent years, the market has absorbed nearly all of these new units, with vacancy only inching higher, a pattern that is likely to repeat in 2019.

Market Indicators

Quarterly Changes	1Q/2019
Vacancy	→
Rents	↑
Transaction Activity.....	↓
Price Per Unit.....	↓
Cap Rates.....	↑

Summary Statistics Orange County Market

Vacancy Rate.....	4.0%
- Change from 1Q 2018 (bps).....	+30
Asking Rents (per month).....	\$1,961
- Change from 1Q 2018 (bps).....	+3.4%
Median Sales Price (per unit YTD).....	\$235,800
Average Cap Rate (YTD).....	4.4%

Orange County Multifamily Market Overview (cont.)

Investment activity got off to a bit of a slower start in 2019 than in recent years. Only a handful of properties changed hands, but that is not uncommon in a given quarter in Orange County. The mix of assets that have sold in recent years are generally 1970s- and 1980s-vintage

complexes, although the recent surge in new construction could lead to an uptick in the sales of newer properties. Cap rates were in the low- to mid-4-percent range during the first quarter and will continue to reflect the mix of properties that are available for acquisition.

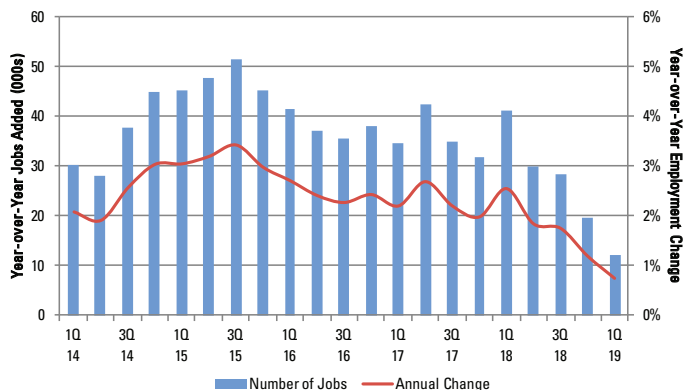
Submarket Statistics

Submarket Name	1Q 2019 Vacancy	1Q 2018 Vacancy	Annual Vacancy Change (BPS)	1Q 2019 Rents	1Q 2018 Rents
Buena Park	1.6%	1.9%	(30)	\$1,566	\$1,523
Orange	1.6%	2.2%	(60)	\$1,927	\$1,872
Costa Mesa	2.0%	2.1%	(10)	\$1,891	\$1,920
Tustin	2.2%	2.4%	(20)	\$1,972	\$1,910
Westminster/Fountain Valley	2.2%	2.3%	(10)	\$1,621	\$1,559
Placentia/Northeast Anaheim	2.4%	2.6%	(20)	\$1,517	\$1,496
North Anaheim	2.6%	2.9%	(30)	\$1,496	\$1,467
Laguna Beach/Dana Point	3.0%	3.5%	(50)	\$2,058	\$1,992
Newport Beach	3.4%	4.8%	(140)	\$2,675	\$2,688
Mission Viejo	3.9%	3.5%	40	\$1,921	\$1,868
Fullerton	4.4%	4.0%	40	\$1,735	\$1,598
Brea	4.5%	3.7%	80	\$1,773	\$1,676
South Santa Ana	4.7%	3.8%	90	\$2,015	\$1,944
North Santa Ana	5.0%	3.1%	190	\$1,615	\$1,519
Laguna Hills	5.2%	5.3%	(10)	\$2,015	\$2,006
Huntington Beach	5.7%	4.0%	170	\$1,956	\$1,772
South Anaheim	6.0%	6.0%	-	\$1,814	\$1,772
Irvine	6.1%	5.0%	110	\$2,601	\$2,528

Employment

- > Employment in Orange County came bouncing back in the first quarter after losses late last year. During the past 12 months, total employment in Orange County has ticked up 0.7 percent with the addition of 12,200 new jobs.
- > High-wage industries are making up the bulk of the job growth in Orange County. In the past year, the professional and business services sector has grown by 2.7 percent, or more than 8,000 new positions. This sector alone has accounted for more than 65 percent of Orange County’s year-over-year job growth.
- > One industry that has been holding back growth in recent quarters is construction. Employment in construction trades contracted by 1.3 percent in the past year. The sector expanded by nearly 20,000 workers from 2015 through 2017 before recording modest cutbacks beginning in 2018.
- > **Forecast:** Employers are forecast to add approximately 17,000 jobs in 2019, for growth of 1 percent.

Employment Overview



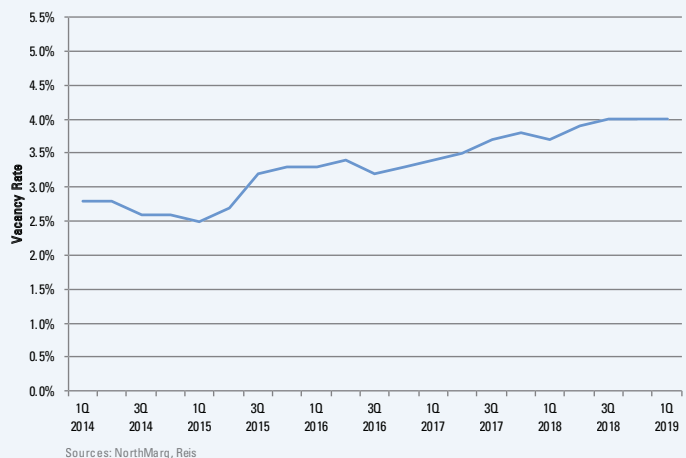
Sources: NorthMarq, Bureau of Labor Statistics

High-wage industries are making up the bulk of the job growth in Orange County

Vacancy

- > Vacancy in Orange County apartments has been very steady in recent quarters. Vacancy ended 2018 at 4 percent and the rate held steady at 4 percent in the first quarter.
- > Vacancy is up 30 basis points from the first quarter 2018. The rate rose in the middle part of last year but has been essentially flat in recent quarters.
- > Vacancy in the Class A segment ended the first quarter at 5.3 percent, up just 10 basis points from the previous quarter. The rate in Class A properties is up 50 basis points from one year ago.
- > **Forecast:** Renter demand for apartments is likely to remain healthy in 2019, but another year of above-average construction is expected to result in a minor vacancy uptick. The Orange County vacancy rate is forecast to rise 20 basis points in 2019, ending the year at 4.2 percent.

Vacancy Trends



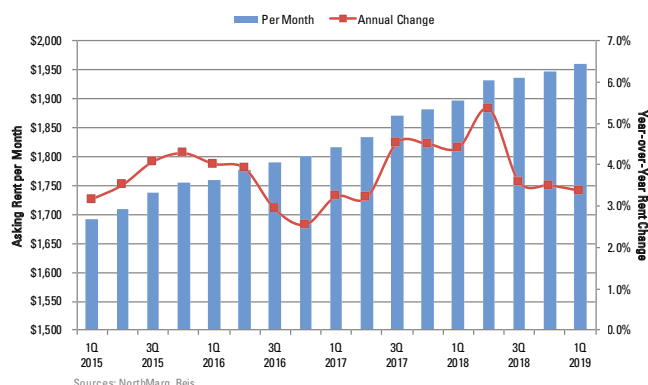
Sources: NorthMarq, Reis

Vacancy ended 2018 at 4 percent and has held steady in the first quarter

Rents

- > Rents have been growing at a consistent pace in recent quarters. Asking rents ended the first quarter at \$1,961 per month, up 3.4 percent from one year ago. Annual rent growth has averaged 3.8 percent during the past three years.
- > Housing affordability is an ongoing concern in Orange County, and there has been a bit of a drag on rent growth in Class B and Class C buildings in recent quarters. Average asking rents in Class B and Class C buildings have increased just 2.6 percent in the past year to \$1,723 per month.
- > The Huntington Beach submarket has posted some of the strongest rent growth in Orange County in recent quarters. Asking rents in Huntington Beach ended the first quarter at \$1,956 per month and are expected to exceed \$2,000 per month before the end of this year.
- > **Forecast:** Rent growth in Orange County has averaged 3.6 percent per year since 2014, and a similar increase is forecast for this year. Rent growth will likely be strongest in submarkets where new, high-end construction is coming online.

Rent Trends

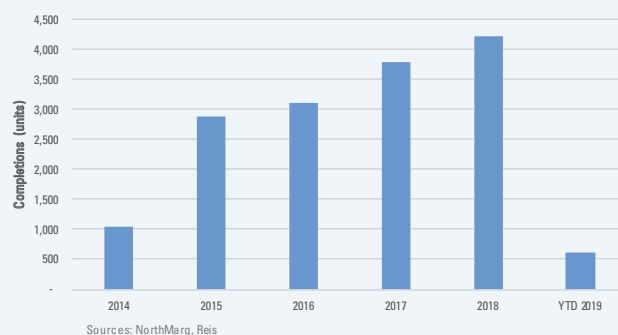


Annual rent growth has averaged 3.8 percent during the past three years

Development and Permitting

- > Apartment construction was very active throughout much of 2018. The pace of deliveries slowed during the first quarter, as projects totaling approximately 600 units came online.
- > Rental projects totaling approximately 3,400 units are currently under construction. One year ago at this time, there were more than a dozen projects under construction totaling nearly 4,500 units.
- > The Irvine submarket is forecast to lead all submarkets in Orange County in new construction in 2019. Developers have approximately 1,400 units under construction in this submarket.
- > **Forecast:** Apartment deliveries in 2019 will be active but are expected to come in about 5 percent lower than the 2018 total. Projects totaling approximately 4,000 apartments are scheduled to come online in 2019.

Development Trends

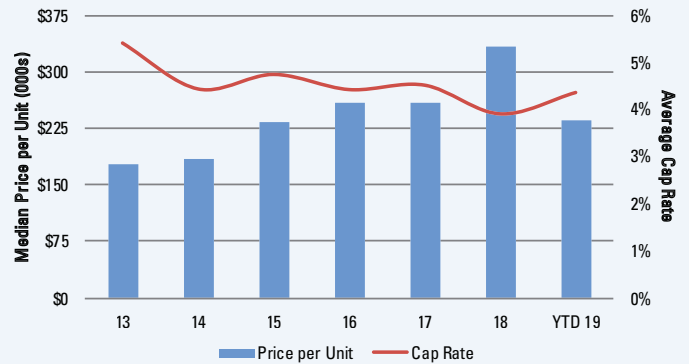


Rental projects totaling approximately 3,400 units are currently under construction

Multifamily Sales

- > The number of properties that sold in the first quarter 2019 was down approximately 20 percent from the total in fourth-quarter 2018. Sales to start this year were also down when compared with first-quarter 2018.
- > Following a steep rise in 2018, the median price crept lower at the beginning of this year. The median price in sales during the first quarter was approximately \$235,800 per unit.
- > Cap rates in Orange County averaged approximately 4.4 percent during the fourth quarter, up 40 basis points from the 2018 average cap rate. The range for most multifamily property sales in Orange County is generally between 3.5 percent and 4.5 percent.

Investment Trends



Sources: NorthMarq, CoStar

Following a steep rise in 2018, the median price crept lower at the beginning of this year

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

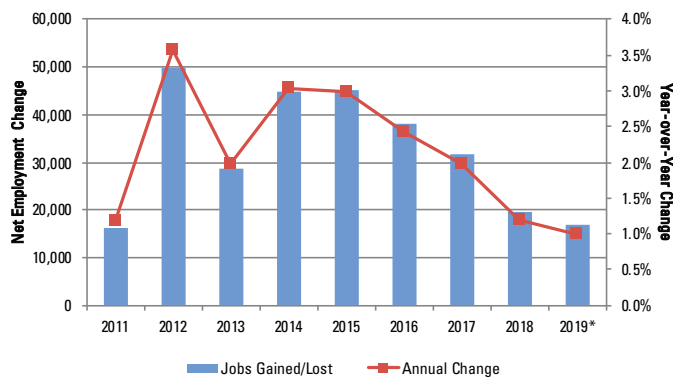
Property Name	Street Address	Units	Sales Price	Price/Unit
Idyllwillow	28016-28032 Marguerite Pky., Mission Viejo	400	\$76,000,000	\$190,000
Westmont	3230 W Lincoln Ave., Anaheim	62	\$17,280,000	\$278,710
Bush Court	1407 N Bush St., Santa Ana	52	\$12,250,000	\$235,577

Looking Ahead

The Orange County multifamily market is showing signs of another year of steady performance in 2019. Vacancy remains in a tight range even as the pace of development has picked up in recent years. While some other California markets have recorded more volatile rent trends, Orange County is expected to maintain the very steady upward climb in rents from the past few years. This predictability in the market is expected to continue to support development and investment activity.

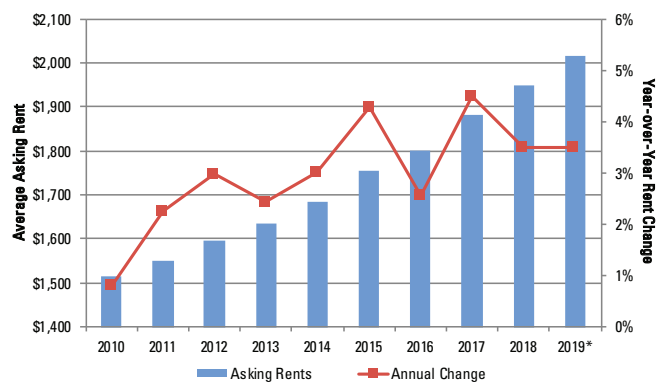
The local investment market is expected to remain healthy. With property fundamentals strong and interest rates low, conditions are likely to remain attractive for investors. The number of annual apartment sales has remained quite consistent since 2015, and activity would have to pick up in the second half of this year for 2019 to match levels from recent years.

Employee Forecast



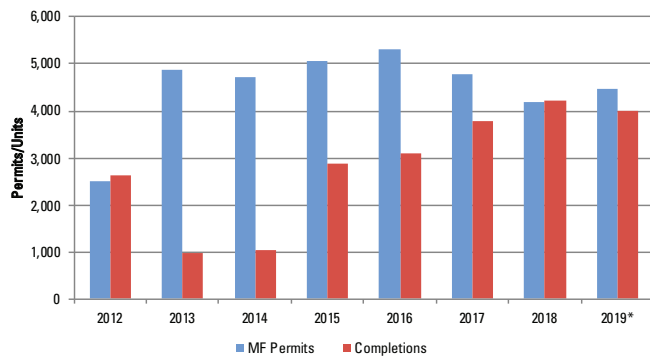
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



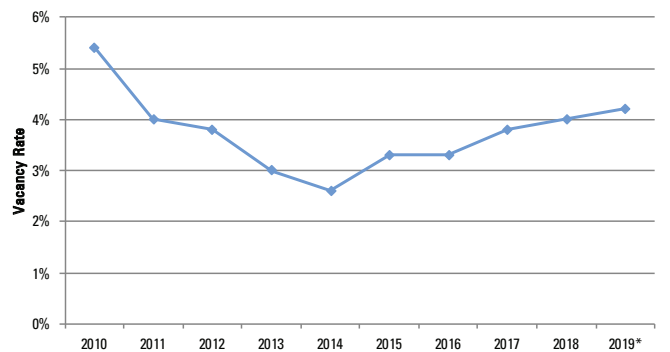
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: NorthMarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of \$13 billion, loan servicing portfolio to more than \$57 billion and the multi-year tenure of our more than 550 people.

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