

Orange County Multifamily

Job Growth Strengthens, but Vacancy Ticks Higher

Highlights

- > The Orange County apartment market posted mixed performance during the second quarter. Vacancy rose and rent growth leveled off even as the employment market recorded healthy gains.
- > Vacancy rose 20 basis points in the second quarter to 4.2 percent, up 30 basis points from one year ago.
- > Rents continued to advance, although the pace of increases was more modest than in recent years. Asking rents in Orange County ended the second quarter at \$1,968 per month, 2.5 percent higher than one year ago.
- > Sales activity during the second quarter was a bit lower than levels from the first three months of the year. Prices rose as larger property sales accounted for a more significant share of total activity. Cap rates have averaged 4.5 percent thus far in 2019, up from 2018 levels.

Q2 Snapshot

Orange County Market



Market Fundamentals

Vacancy	4.2%
- Year Over Year Change	+30 bps
Asking Rent	\$1,968
- Year Over Year Change	+2.5%



Transaction Activity

Median Sales Price Per Unit (YTD)	\$271,400
Cap Rates (Avg YTD)	4.5%



Construction Activity

Units Under Construction	2,719
Units Delivered YTD	1,466

Orange County Multifamily Market Overview

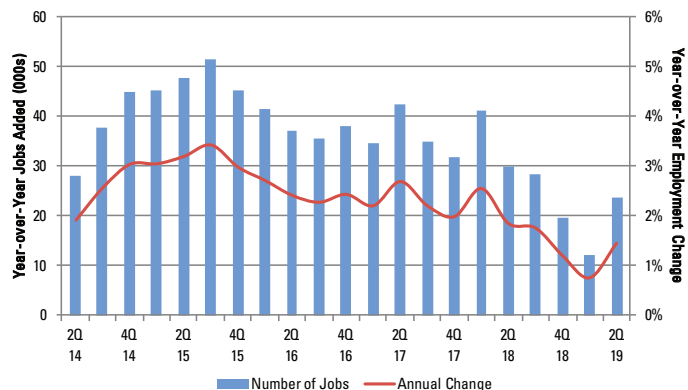
Multifamily supply and demand indicators were mixed during the second quarter, leading to some uneven performance in the Orange County apartment market. Local employment growth accelerated, with growth picking up, particularly in the area's important white-collar professional jobs. Despite the employment gains, renter demand for apartments cooled a bit, resulting in a modest uptick in vacancy. Rent growth also slowed, although rents are inching higher and are expected to continue to post quarterly and annual gains.

Investment activity in Orange County has generally been steady at the high end of the price spectrum thus far in 2019, but there has been a bit of a slowdown in properties selling under \$20 million. Some of this is likely being driven by a lack of inventory available for sale. With the development pipeline thinning in the coming quarters and employment gains accelerating, the outlook for multifamily investment could strengthen.

Employment

- > Employment growth in Orange County picked up during the second quarter, but the rate is still less robust than in recent years. During the past 12 months, employers have expanded payrolls 1.4 percent with the addition of 23,800 new jobs. Last year at this time, the pace of growth was 1.8 percent.
- > The professional and business services sector has continued to be one of the most reliable sectors for rapid employment growth in Orange County. Local professional employment expanded 2.4 percent in the past year with the addition of 7,400 jobs.
- > After posting modest contraction in 2018, construction employment has gained momentum thus far in 2019. Year to date, nearly 5,000 construction jobs have been added, an expansion of 4.7 percent.
- > **Forecast:** Employers are expected to add approximately 25,000 new positions this year, a 1.5 percent expansion. Growth has been inconsistent during the past two years, but gains have averaged 25,000 net new jobs per year.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

After modest contraction in 2018, construction employment has gained momentum in 2019

Vacancy

- > After holding steady for a few straight quarters, multifamily vacancy in Orange County rose 20 basis points during the second quarter with the rate ticking up to 4.2 percent.
- > Year over year, vacancy has increased 30 basis points. The rate has been gradually pushing higher in recent years. Part of the upward pressure on vacancy has been the delivery of approximately 3,300 newly completed rental units during the past 12 months.
- > While the overall vacancy rate crept higher in the second quarter, vacancy in Class B and Class C buildings has been steady. The combined vacancy rate for Class B and Class C properties has been 3.2 percent in each of the past four quarters.
- > **Forecast:** The past few years have posted modest vacancy increases as construction of new apartment units has been quite active. Vacancy is forecast to rise 40 basis points in 2019, ending the year at 4.4 percent.

Vacancy Trends



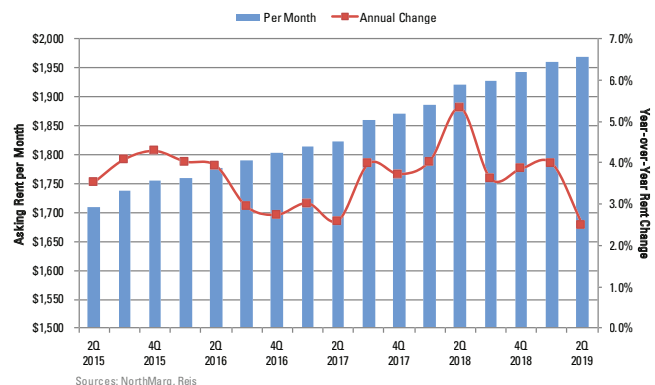
Sources: NorthMarq, Reis

Vacancy in Orange County rose 20 basis points during the second quarter

Rents

- > Asking rents crept higher in the second quarter, reaching \$1,968 per month. Asking rents are up 1.3 percent year to date.
- > During the past 12 months, asking rents in Orange County have risen 2.5 percent. More robust increases were recorded during the past few years; the last time rents were advancing at the current pace was mid-2017.
- > Rent growth in Class A buildings has been fairly modest in recent quarters. Year over year, Class A asking rents have risen just 2 percent, ending the second quarter at \$2,276 per month.
- > **Forecast:** The average asking rent in Orange County is forecast close 2019 at a few dollars over \$2,000 per month. Asking rents are expected to post a 3 percent increase this year.

Rent Trends

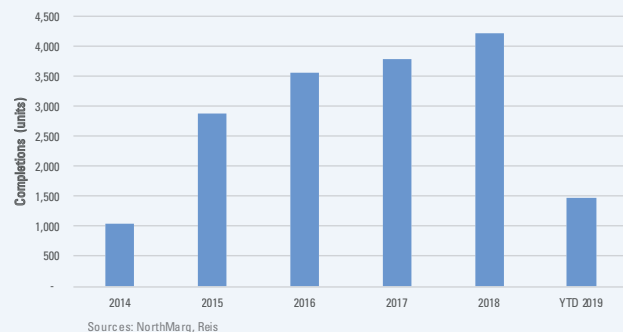


Asking rents crept higher in the second quarter, reaching \$1,968 per month

Development and Permitting

- > Nearly 900 apartment units came online in the second quarter, and deliveries thus far in 2019 have totaled approximately 1,500 units. Completions in the first half of this year are down nearly 40 percent when compared to deliveries in the first half of 2018.
- > Projects totaling approximately 2,700 units are currently under construction, down 20 percent from the total at the end of the first quarter. Multifamily permitting in the first half was down approximately 30 percent from the first half of last year.
- > The South Anaheim and North Anaheim submarkets led the way for new construction during the second quarter. The Irvine submarket is forecast to have the most completions in the second half of the year.
- > **Forecast:** Construction is forecast to accelerate in the second half of the year, bringing the total for 2019 to approximately 4,000 apartment units.

Development Trends

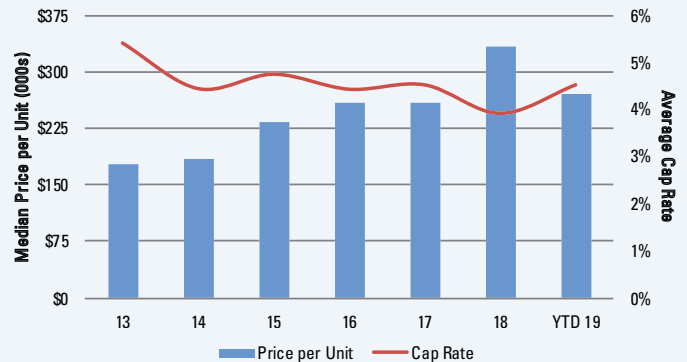


Permitting in the first half was down approximately 30 percent from the first half of last year

Multifamily Sales

- > Sales velocity slowed modestly from the first quarter to the second quarter. Activity was steady in transactions larger than \$50 million.
- > Prices rose in the transactions that closed during the second quarter. The median price in second-quarter sales was more than \$371,000 per unit. Year to date, the median price is \$271,400 per unit.
- > Cap rates in Orange County have averaged approximately 4.5 percent in 2019, up nearly 50 basis points from the average from last year. While there has been some modest fluctuation from year to year, cap rates have averaged approximately 4.5 percent since 2014.

Investment Trends



The median price in second-quarter sales was more than \$371,000 per unit

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

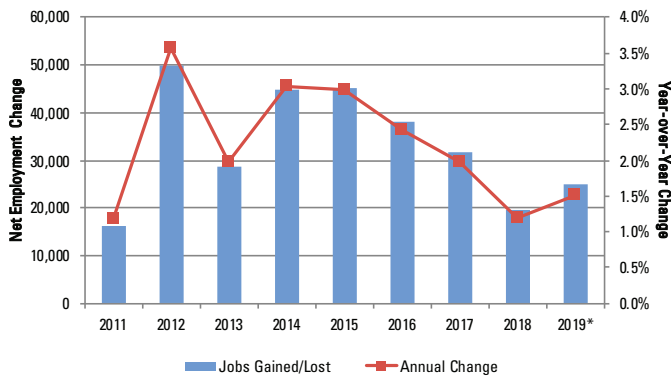
Property Name	Street Address	Units	Sales Price	Price/Unit
The Line at Santa Ana	3630 W Westminster Ave., Santa Ana	228	\$100,840,000	\$442,281
Nineteen01	1901 E 1st St., Santa Ana	264	\$98,000,000	\$371,212
Park Midrise	518 E Pine St., Santa Ana	63	\$17,100,000	\$271,429

Looking Ahead

Apartment construction has been quite active in Orange County in recent years, a trend that is expected to continue for a few more quarters. Looking ahead to the second half of 2020, however, the developments that are currently in the construction pipeline are expected to be delivered and there are not many projects currently planned. This will likely lead to a slight lull in new construction during the next few years, allowing the vacancy rate to decline and supporting stronger rent growth.

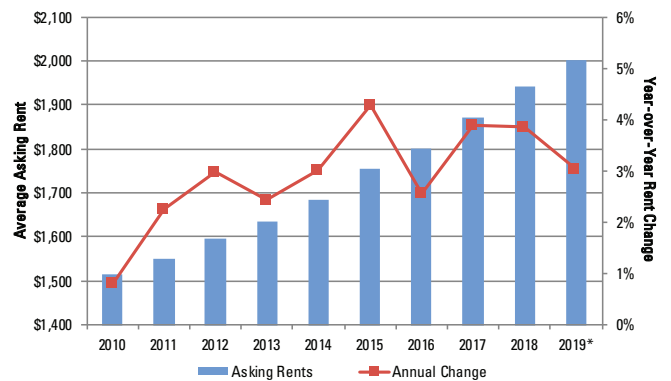
The Orange County investment market is unlikely to change dramatically in the coming quarters. Investor demand should remain healthy, and if interest rates remain low, there could be an uptick in activity among private buyers. The past few years of elevated construction could serve as a driver of some additional activity at the high end of the pricing spectrum as newer projects are leased up and sold. A few transactions involving newer product have already closed.

Employment Forecast



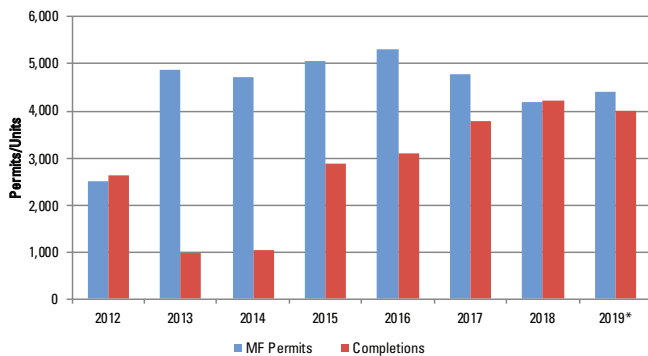
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



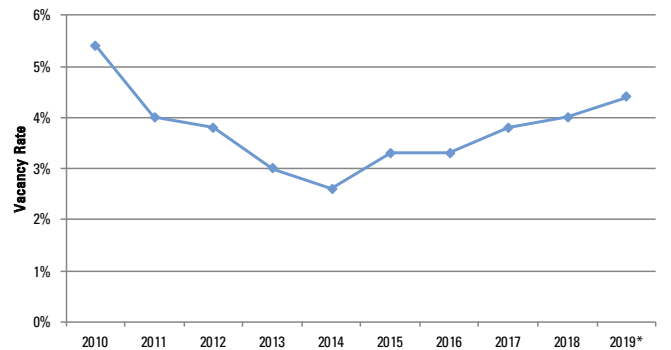
* Year End Forecast
Sources: NorthMarq, Reis

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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