

# Orange County Multifamily

## Vacancy Tightens as Construction Slows

### Highlights

- > The Orange County multifamily market strengthened in the third quarter, with rents rising and vacancy dipping below 4 percent for the first time in more than a year.
- > Vacancy fell 30 basis points from the second quarter to the third quarter, dipping to 3.9 percent. The rate is 10 basis points lower than one year ago.
- > Rent growth has been averaging slightly less than 1 percent per quarter in recent periods, a trend that continued during the third quarter. Year over year, asking rents have increased 2.8 percent, reaching \$1,981 per month.
- > Sales activity was consistent from the second quarter to the third quarter, with the bulk of the activity occurring in sales of properties having fewer than 100 units. The median price thus far in 2019 is \$307,000 per unit, with cap rates holding steady at approximately 4.2 percent.

### Orange County Multifamily Market Overview

The Orange County multifamily market tightened in the third quarter, as renter demand remained strong and there were no significant additions to apartment inventory. The vacancy rate fell 30 basis points, dipping just below 4 percent for the first time since the middle of last year, and rents continued to creep higher at a steady pace. There are projects in the development pipeline, with the Irvine, Laguna Hills, and South Anaheim submarkets forecast to have new developments come online in either late 2019 or early 2020.

### Q3 Snapshot

### Orange County Market



#### Market Fundamentals

Vacancy .....	<b>3.9%</b>
- Year Over Year Change .....	<b>-10 bps</b>
Asking Rent .....	<b>\$1,981</b>
- Year Over Year Change .....	<b>+2.8%</b>



#### Transaction Activity

Median Sales Price Per Unit (YTD) .....	<b>\$307,000</b>
Cap Rates (Avg YTD) .....	<b>4.2%</b>



#### Construction Activity

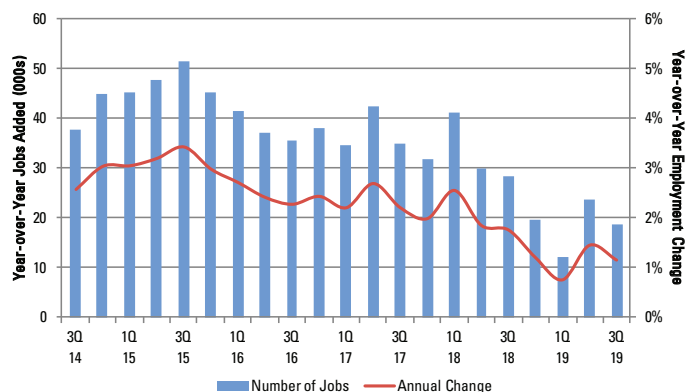
Units Under Construction .....	<b>2,867</b>
Units Delivered YTD .....	<b>1,466</b>

Multifamily investment activity in Orange County during the third quarter was similar to levels recorded during the preceding three months. Only a few properties sold, and generally, sales activity was limited to smaller properties consisting of fewer than 100 units. While fewer properties have sold in 2019, pricing and cap rates have been consistent throughout much of the year. The median price has remained approximately \$307,000 per unit, with cap rates averaging 4.2 percent throughout much of this year.

## Employment

- > Employment growth in Orange County slowed a bit during the third quarter. Year over year, employers have added 18,800 net new jobs, an increase of 1.1 percent.
- > Nearly half of the new jobs that have been added in Orange County during the past year have been in the traditionally high-wage professional and business services sector. The sector has expanded by 2.4 percent year over year, with 7,500 new positions.
- > The pace of growth in Orange County's large leisure and hospitality industry has been accelerating. During the past 12 months, more than 6,000 jobs have been added in the sector, a 2.7 percent expansion.
- > After businesses expanded payrolls by fewer than 20,000 jobs in 2018, growth is on pace to accelerate in 2019. Employers are forecast to add approximately 23,000 new positions this year, a 1.4 percent gain.

### Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

*The local leisure and hospitality sector expanded by 2.7 percent year over year*

## Vacancy

- > After a brief uptick in the second quarter, vacancy improved in the third quarter. The rate dipped 30 basis points, retreating to 3.9 percent. This is the lowest vacancy rate in Orange County since the second quarter of 2018.
- > During the past 12 months, vacancy in Orange County has fallen 10 basis points. This is the first year-over-year vacancy improvement in the area since 2015.
- > One factor driving the overall vacancy rate lower during the third quarter was an improvement in the area's top-tier apartments. Class A vacancy in Orange County fell 30 basis points in the third quarter, dipping to 4.9 percent. Vacancy in the Class A segment is at its lowest point since early 2017.
- > Vacancy in Orange County is forecast to rise 10 basis points from 2018 to 2019, ending the year at 4.1 percent.

### Vacancy Trends



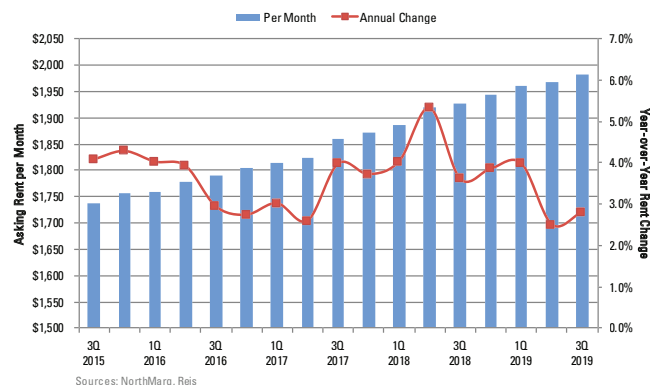
Sources: NorthMarq, Reis

*Vacancy dipped below 4 percent for the first time in more than a year*

## Rents

- > Rents continued to rise at a pace of less than 1 percent per quarter during the third quarter. Asking rents rose 0.7 percent in the third quarter and are up 2 percent year to date.
- > Year over year, asking rents in Orange County have posted a 2.8 percent gain, compared to a 3.6 percent annual increase one year ago at this time. Asking rents ended the third quarter at \$1,981 per month.
- > Rent growth at the high end of the market accelerated during the third quarter. Class A asking rents reached \$2,296 per month in the third quarter, 3.3 percent higher than one year ago. Rent growth in the Class A segment totaled 4 percent in 2018 but is expected to come in closer to 3 percent by the end of this year.
- > With renter demand for apartments steady, rents are forecast to continue to push higher. Asking rents in Orange County are expected to rise 3 percent in 2019, ending the year at approximately \$2,000 per month.

## Rent Trends

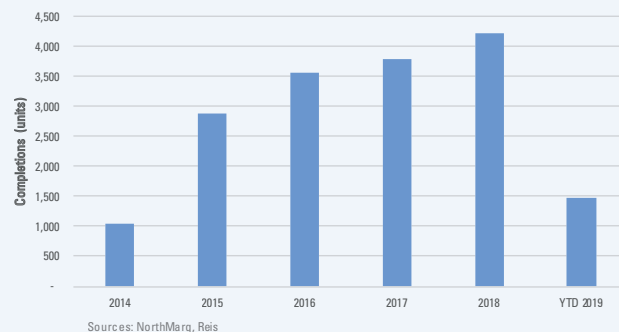


*Rent growth in the third quarter was strongest in Class A apartments*

## Development and Permitting

- > After more than 1,400 units came online during the first half of the year, no new significant projects were delivered in the third quarter. Year to date through the first three quarters of the year, deliveries are down 45 percent compared to the same period in 2018.
- > Projects totaling more than 2,800 units are under construction. Approximately 40 percent of the units that are presently under way are located in the Irvine submarket.
- > After nearly 1,000 units were delivered in the South Anaheim submarket in 2018, an additional 750 apartments are forecast to come online in the area by the end of this year. Nearly half of the submarkets in Orange County have not had any new deliveries in either 2018 or 2019.
- > Developers are on pace to deliver approximately 2,800 new apartment units to Orange County for the full year of 2019, after completing more than 4,200 units in 2018.

## Development Trends

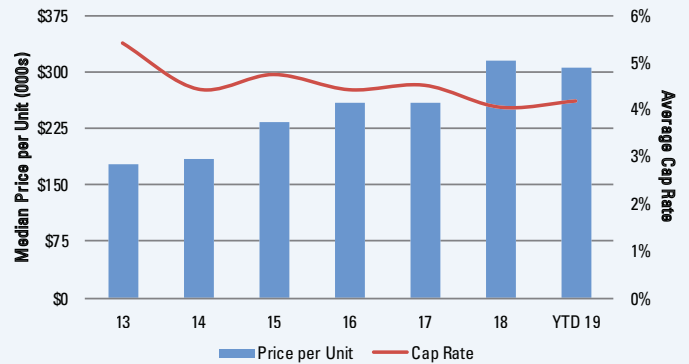


*Construction slowed in the third quarter, following an active first half of 2019*

## Multifamily Sales

- > Sales velocity was consistent from the second quarter to the third quarter. Transactions during the third quarter were largely limited to projects of fewer than 100 units. Thus far in 2019, sales velocity is down approximately 50 percent when compared to the same period in 2018.
- > The median price in sales closed through the third quarter of this year is approximately \$307,000 per unit.
- > Cap rates in Orange County have been very steady throughout 2019, averaging approximately 4.2 percent throughout the year.

## Investment Trends



Sources: NorthMarq, CoStar

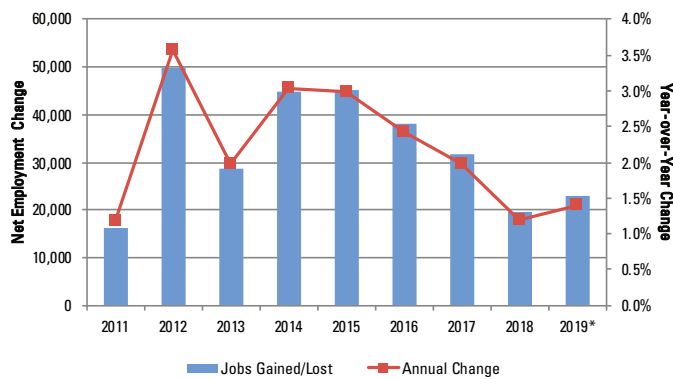
*Sales activity during the third quarter was concentrated in projects totaling fewer than 100 units*

## Looking Ahead

As 2019 comes to a close, multifamily construction in Orange County will likely gain momentum, driving the vacancy rate a bit higher than the current rate. Despite this, the market is expected to remain strong, supported by continued renter demand that is being fueled by two factors that show no signs of changing course in the coming years: ongoing employment growth and low housing affordability. The passage of rent control legislation earlier this year is not expected to have a significant impact on the Orange County market in the coming years.

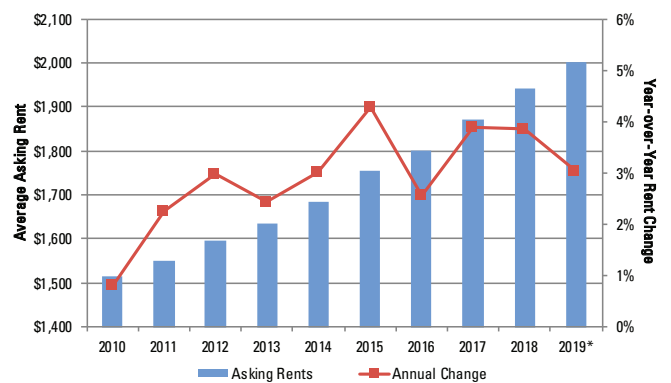
The Orange County investment market has displayed consistent performance during much of 2019, a trend that is likely to continue as the year comes to a close. Early indications suggest there could be a modest rise in activity levels, which is a fairly common occurrence as investors take action prior to the end of the year. Cap rates have remained in the 4.2 percent range this year, and with interest rates not making any significant moves and investor demand strong, cap rates are expected to remain essentially flat.

### Employment Forecast



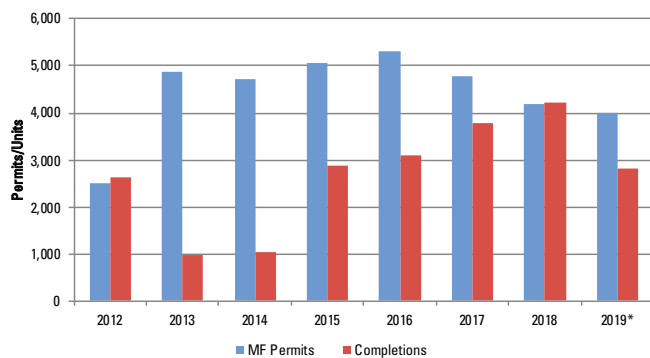
\* Year End Forecast  
Sources: NorthMarq, Bureau of Labor Statistics

### Rent Forecast



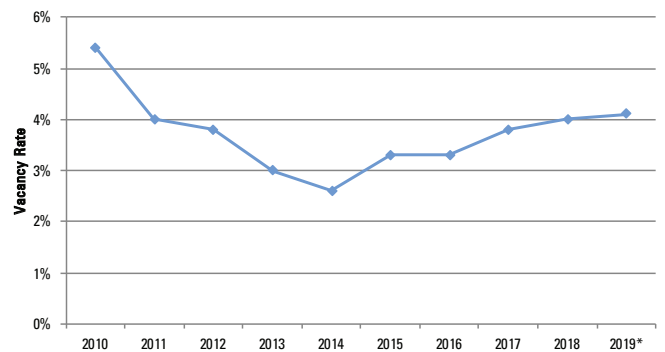
\* Year End Forecast  
Sources: NorthMarq, Reis

### Construction & Permitting Forecast



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

### Vacancy Forecast



\* Year End Forecast  
Sources: NorthMarq, Reis

## About NorthMarq

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