

Orange County Multifamily

Orange County Closes 2019 on an Upswing

Highlights

- > The fourth quarter was a strong period for the Orange County apartment market, with vacancy tightening and rents rising. Construction has been active as developers bring new units to the market to meet renter demand.
- > Multifamily vacancy in Orange County ended 2019 at 3.7 percent. The rate dropped 20 basis points in the fourth quarter and fell 30 basis points from one year earlier.
- > Asking rents rose 2.9 percent in 2019, ending the year at \$2,000 per month. The strongest gains of the year were recorded during the fourth quarter.
- > In 2019, the median price reached \$317,500 per unit, while cap rates averaged approximately 4 percent. Prices rose and cap rates compressed during the fourth quarter.

Orange County Multifamily Market Overview

Operating fundamentals in the Orange County multifamily market improved in 2019, and conditions strengthened the most during the fourth quarter. Rents rose at an accelerating pace in the fourth quarter, and vacancy reached its lowest point in nearly two years. The vacancy rate dipped even as inventory growth has been active in recent years. Developers will continue to bring new units to Orange County through at least the next 12-18 months, with several projects either under construction or planned in the Irvine submarket.

Q4 Snapshot

Orange County Market



Market Fundamentals

Vacancy	3.7%
- Year Over Year Change	-30 bps
Asking Rent	\$2,000
- Year Over Year Change	+2.9%



Transaction Activity

Median Sales Price Per Unit (YTD)	\$317,500
Cap Rates (Avg YTD)	4.0%



Construction Activity

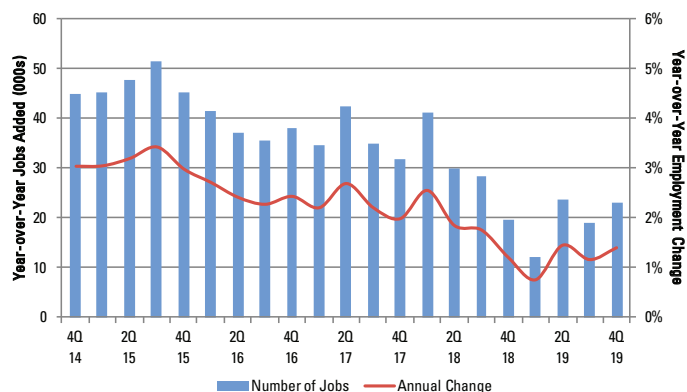
Units Under Construction	2,893
Units Delivered YTD	2,591

The investment market reflected the health of the local multifamily market in 2019. The pace of transaction activity was fairly consistent from quarter to quarter, although fewer properties changed in 2019 than in 2018. While total transaction activity in Orange County is often limited, investor demand remains elevated, a fact that is reflected in the high pricing and low cap rates being recorded in properties that sell. Cap rates averaged approximately 4 percent in 2019, and the median price topped \$315,000 per unit.

Employment

- > The pace of employment growth in Orange County accelerated in 2019. Employers added 23,000 net new jobs in 2019, a 1.4 percent pace of growth. Employers added fewer than 20,000 jobs in 2018.
- > One segment of the economy that fueled expansion in 2019 was the construction sector. Construction employment in Orange County expanded by 5.1 percent in the last year, adding 5,300 employees.
- > One of Orange County's largest employers is gearing up for a significant expansion. Edwards Life Sciences is expanding the company's existing campus in Irvine, a move that could nearly double the company's more than 4,000 local employees. The expansion will include two office and laboratory buildings and will be built in phases. The first phase of the project is forecast to be delivered in the second quarter of 2020.
- > **Forecast:** Employers are forecast to add approximately 24,000 new jobs across a wide range of industries in Orange County in 2020, a 1.4 percent addition to local payrolls.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Employers added 23,000 net new jobs in 2019

Vacancy

- > After falling 30 basis points in the third quarter, vacancy retreated an additional 20 basis points during the fourth quarter.
- > Vacancy in Orange County fell 30 basis points for the year, ending 2019 at 3.7 percent. This was the lowest quarterly vacancy figure in the region since the beginning of 2018.
- > Vacancy in Class A apartments improved 80 basis points in 2019, with the rate ending the year at 4.5 percent. This marked the lowest Class A vacancy rate in Orange County since the end of 2015.
- > **Forecast:** With construction forecast to pick up in 2020, the local vacancy rate will likely inch higher. Vacancy is forecast to end 2020 at 3.9 percent, a 20 basis point increase.

Vacancy Trends



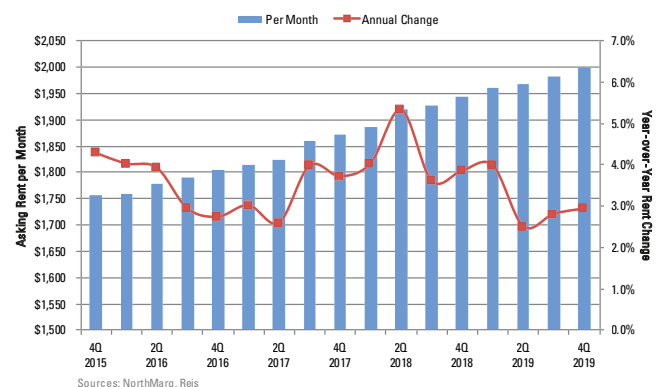
Sources: NorthMarq, Reis

Vacancy fell 30 basis points for the year, ending 2019 at 3.7 percent

Rents

- > The pace of rent growth ticked higher as vacancy tightened at the end of the year. Asking rents rose 1 percent from the third quarter to the fourth quarter, the largest three-month increase since mid-2018.
- > In 2019, asking rents rose 2.9 percent, ending the year at \$2,000 per month. Rent growth has averaged 3.5 percent per year since 2015.
- > Rent growth in Class A properties outpaced the overall market average in 2019. Asking rents in Class A units rose 3.2 percent last year, reaching \$2,316 per month.
- > **Forecast:** Rent growth in Orange County is forecast to gain momentum in 2020. Asking rents are expected to rise approximately 3.5 percent in 2020, reaching \$2,070 per month.

Rent Trends

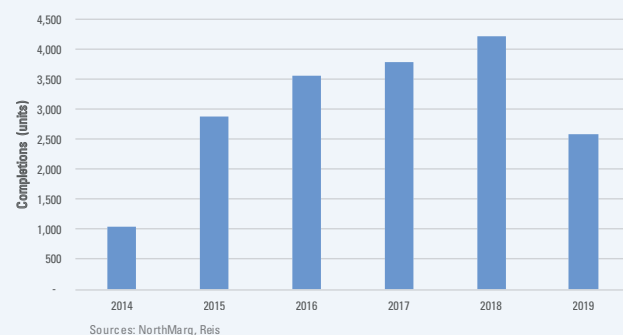


The pace of rent growth ticked higher as vacancy tightened at the end of the year

Development and Permitting

- > Developers delivered approximately 2,600 apartment units in 2019, after more than 4,000 units came online in 2018. With renter demand elevated, additional development is likely to be active through 2020 and into 2021.
- > Projects totaling nearly 2,900 units were under construction at the end of 2019, down from more than 4,600 units under construction one year earlier.
- > The Platinum Triangle has been an active area for new development. In late-2019, the Jefferson Rise at Platinum Park project delivered. In addition, the 332-unit Rev at Platinum Park is under construction.
- > **Forecast:** In 2020, multifamily developers are forecast to deliver approximately 2,700 units, representing a slight increase from completions in 2019. Deliveries have averaged 3,300 units per year since 2015.

Development Trends

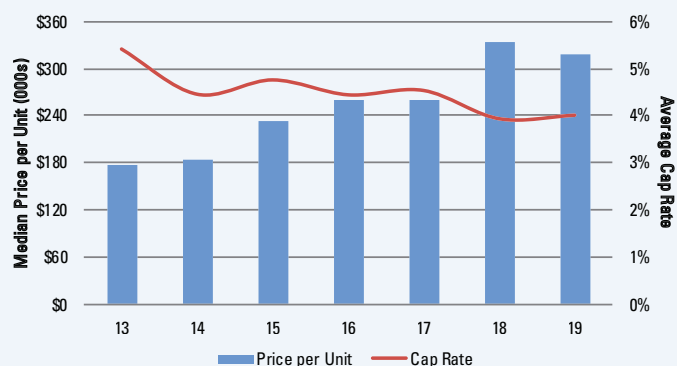


Projects totaling nearly 2,900 units were under construction at the end of 2019

Multifamily Sales

- > Quarterly sales velocity was fairly consistent throughout 2019, with a slow but steady pace of transactions occurring throughout the year. While the pace was steady, fewer properties traded in 2019 than changed hands in 2018.
- > Sales prices rose in the fourth quarter. The median price in properties that sold in the final three months of the year was nearly \$473,000 per unit. For the full year, the median price reached \$317,500 per unit.
- > Cap rates averaged approximately 4 percent in Orange County in 2019. With local properties posting strong performance, cap rates are likely to remain low.

Investment Trends



Cap rates averaged approximately 4 percent in Orange County in 2019

Recent Transactions in the Market

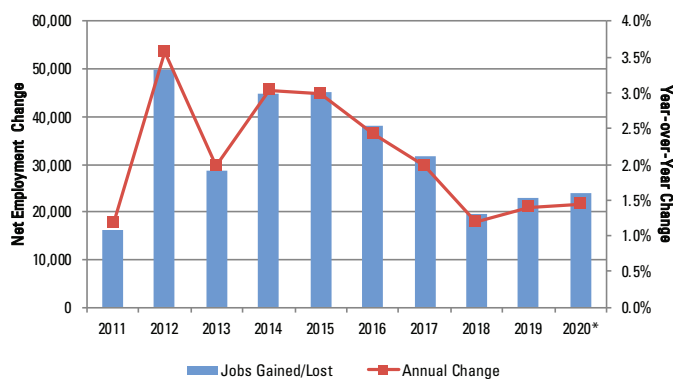
MULTIFAMILY SALES ACTIVITY				
Property Name	Street Address	Units	Sales Price	Price/Unit
Baker Block	125 Baker St. E, Costa Mesa	240	\$113,512,000	\$472,967
Crystal View	12021-12156 Bayport St., Garden Grove	402	\$108,100,000	\$268,905

Looking Ahead

Apartment market conditions in Orange County are forecast to have another year of healthy performance in 2020. Renter demand for units is healthy, with absorption averaging approximately 2,500 units per year since 2015. In the year ahead, absorption should closely track the deliveries of new units, keeping the overall vacancy rate close to the current figure. With demand steady and vacancies tight, rents should continue to trend higher.

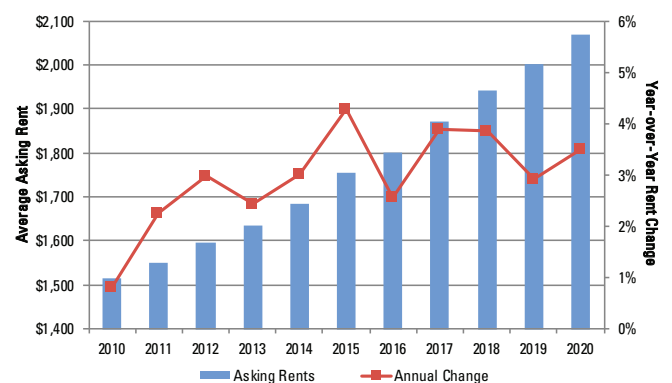
Investment conditions in Orange County strengthened at the end of 2019, setting the stage for another year of high demand in the year ahead. Cap rates are averaging around 4 percent, remaining close to levels that have been in place for the past five or six years. This reflects the persistent demand for local multifamily properties, and with interest rates low, cap rates will likely remain in their current ranges.

Employment Forecast



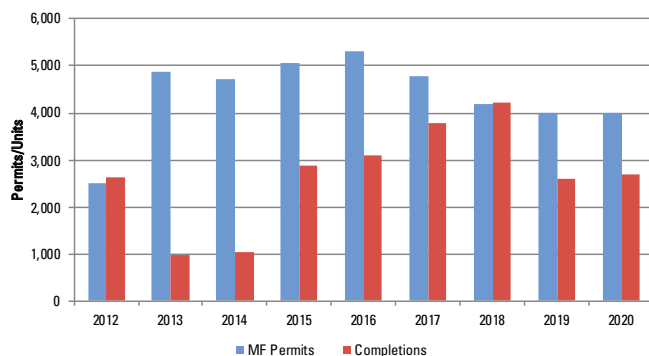
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



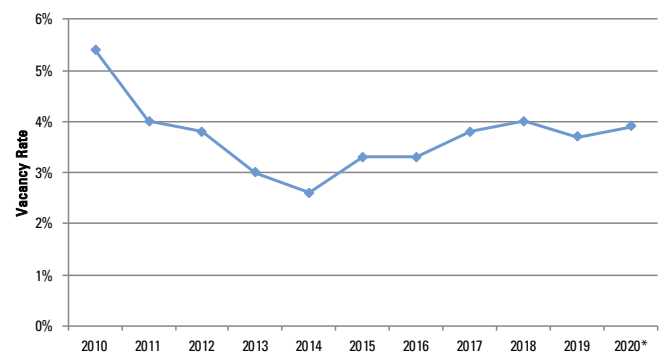
* Year End Forecast
Sources: NorthMarq, Reis

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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