# Market Insights

Orange County Multifamily 3Q 2021

Northmarq

## Construction Activity

**5,242**

Units under construction

**680**

Units delivered (YTD)

## Market Fundamentals

**3.4%**

Vacancy

**-20bps** | Year over year change

**$2,186**

Asking Rent

**+11.6%** | Year over year change

## Transaction Activity

**$364,900**

Median sales price per unit (YTD)

**3.7%** | Cap rates (YTD)

# Rent Growth Gains Momentum as Demand Strengthens

## Highlights

- A recovering labor market fueled absorption of apartment units in Orange County during the third quarter, driving vacancy lower and causing rents to spike. Further gains are likely in the next few quarters.
- Vacancy fell 40 basis points during the third quarter, reaching 3.4 percent. Year over year, the rate has declined 20 basis points. The current vacancy rate is the lowest figure in the market since early 2017.
- Rents spiked for the second consecutive period. During the third quarter, asking rents rose more than 5 percent, reaching $2,186 per month. Year over year, asking rents are up 11.6 percent.
- Multifamily investment activity surged during the third quarter, and current transaction volumes have already far surpassed 2020 levels. Prices have pushed higher, with the median price reaching $364,900 per unit year to date. Cap rates have compressed, averaging 3.7 percent.

## Orange County Multifamily Market Overview

The Orange County multifamily market posted a strong performance during the third quarter as rents spiked to historic levels and vacancies tightened. Largely driven by an expanding employment market that has heightened renter demand, asking rents increased to nearly $2,200 per month in Orange County. The pace of new multifamily development has lagged absorption levels to this point in 2021, allowing vacancy to tighten across most areas in the region. Apartment completions are expected to pick up in the coming quarters as more than 5,200 units are currently under construction in Orange County. The new inventory growth will likely keep vacancy rates near current ranges for the next several quarters.

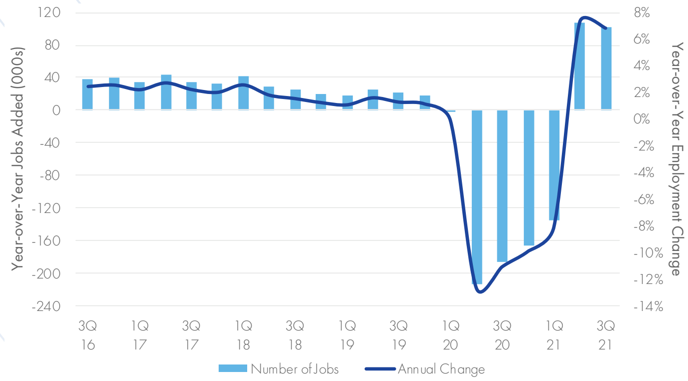
Investment activity in Orange County gained momentum during the third quarter as the number of transactions accelerated more than 70 percent from the previous period. In addition to a spike in transactions, the mix of properties that sold involved larger assets, with an increase in sales of properties with more than 250 units. These large transactions have accounted for more than one-third of all transactions in Orange County year to date, compared to about one-fifth of sales from 2018 to 2020. The larger transactions have allowed for continued cap rate compression; cap rates have averaged approximately 3.7 percent in 2021, down from an average of 4 percent in the past few years.

# Employment

- Total employment in Orange County expanded by more than 18,500 jobs during the third quarter. This marked the fifth consecutive quarter of net job gains in Orange County, and the pace of growth has been consistent in four of the past five periods of expansion.
- Year over year, local employment is up 6.8 percent, with the addition of nearly 102,000 jobs. The local labor market has room for continued expansion in the coming quarters; current employment totals are down nearly 6 percent from the pre-COVID peak.
- The professional and business services sector—which is one of the primary drivers of the local economy—continues to be one of the strongest-performing industries in the region. Year to date, employment in the sector has expanded by more than 21,000 jobs, a 7 percent gain.
- **Forecast:** The local employment market is forecast to continue to bounce back in the final quarter of 2021. For the full year, employers are expected to add approximately 100,000 jobs, an annual growth of 6.6 percent.

> Year over year, local employment is up 6.8 percent.

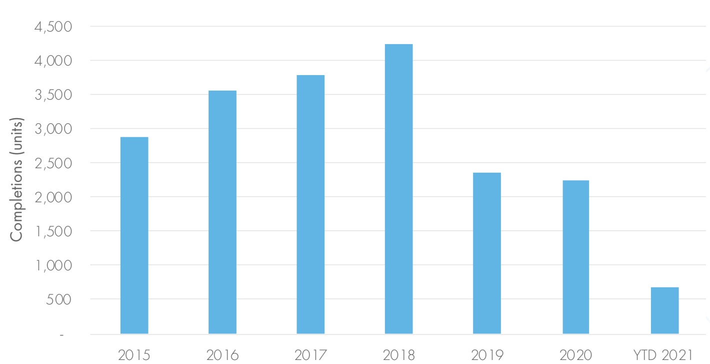
### Employment Overview




Sources: Northmarq, Bureau of Labor Statistics

> More than 5,200 units are currently under construction in Orange County.

### Development Trends




Sources: Northmarq, Reis

# Development and Permitting

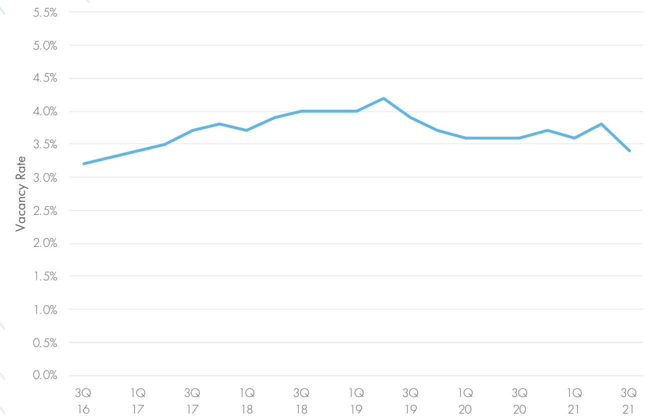
- Apartment deliveries have slowed to this point in 2021, with projects totaling approximately 680 units delivered through the third quarter. This total is down more than 60 percent from the same period one year ago.
- Projects totaling more than 5,200 units are currently under construction in Orange County. The fourth quarter is likely to be the most active period of 2021 for completions, although the full-year construction total is expected to come in about 35 percent lower than the annual average recorded during the past two years.
- Permitting has been active to this point in 2021 as developers have pulled permits for more than 3,200 multifamily units year to date. Permitting activity in the first nine months of 2021 has outpaced levels recorded since 2017.
- **Forecast:** Multifamily construction is expected to taper off from recent years as roughly 1,500 units are forecast to be delivered by the end of 2021. Construction activity peaked in 2018 with more than 4,200 units delivered.

# Vacancy

- Vacancy tightened during the third quarter, falling 40 basis points to 3.4 percent. Healthy absorption drove the vacancy rate to its lowest rate since early 2017. Absorption during the third quarter more than tripled levels from the second quarter. Year over year, vacancy is down 20 basis points.
- The largest drop in vacancies was reported in Class A properties. Class A vacancy declined 70 basis points in the third quarter, ending the period at 4.2 percent. The current rate is the lowest level recorded since 2015.
- Many submarkets in Orange County are maintaining rates below 2.5 percent. Areas such as Buena Park, Brea, and Costa Mesa all have vacancy rates ranging from 1.5 percent to 2 percent. New construction has been limited in these areas in recent years, supporting tight vacancy conditions.
- **Forecast:** The vacancy rate is forecast to drop 40 basis points in 2021, finishing the year at 3.3 percent. This would mark the lowest year-end vacancy rate in Orange County since 2016.

> Vacancy tightened during the third quarter, falling 40 basis points.

## Vacancy Trends



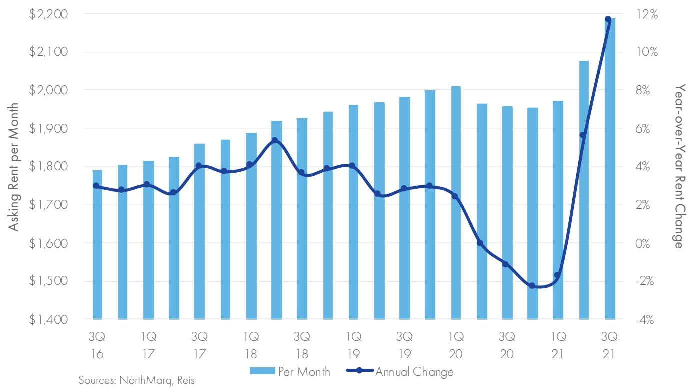

Sources: NorthMarq, Reis

# Rents

- Rents are on the rise in Orange County. Asking rents rose 5.3 percent during the third quarter, reaching $2,186 per month. This followed a 5.1 percent increase recorded in the second quarter.
- Fueled by gains during the past six months, area asking rents are up 11.6 percent year over year. This marks the largest annual rent growth in the last 20 years.
- Rents in Class A units posted steep gains during the third quarter, rising 8.5 percent to $2,581 per month. Class A asking rents have surpassed their pre-COVID levels.
- **Forecast:** Rent growth is forecast to total nearly 15 percent this year. Asking rents are on pace to reach $2,244 per month by the end of 2021.

> Asking rents are up 11.6 percent year over year.

## Rent Trends



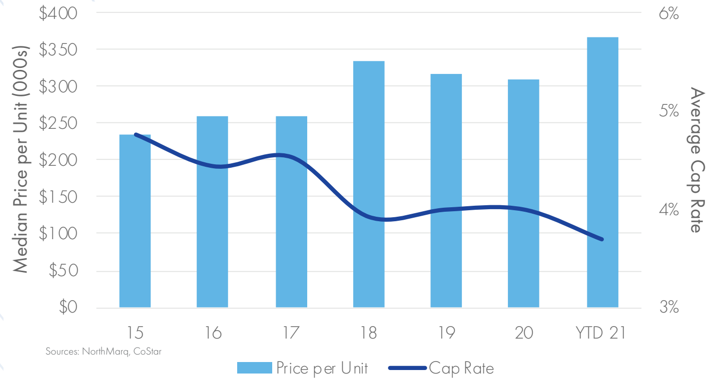

Sources: NorthMarq, Reis

# Multifamily Sales

- Multifamily sales velocity in Orange County rose from the second quarter to the third quarter. Transaction activity was up more than 70 percent since the end of June. Transaction counts to this point in 2021 have already exceeded the total for all of last year by more than 60 percent.
- Sales prices pushed higher through the first nine months of the year. The median price rose nearly 18 percent from 2020, reaching $364,900 per unit.
- Cap rates have inched lower as rents have pushed higher, and sales velocity has accelerated. Cap rates have averaged approximately 3.7 percent year to date, down from 4 percent in the past few years. During the third quarter, some properties traded with cap rates ranging from 3.25 percent to 3.5 percent.

> The average cap rate reached 3.9 percent to this point in 2021.

### Investment Trends




Sources: NorthMarq, CoStar

# Recent Transactions

### Multifamily Sales Activity

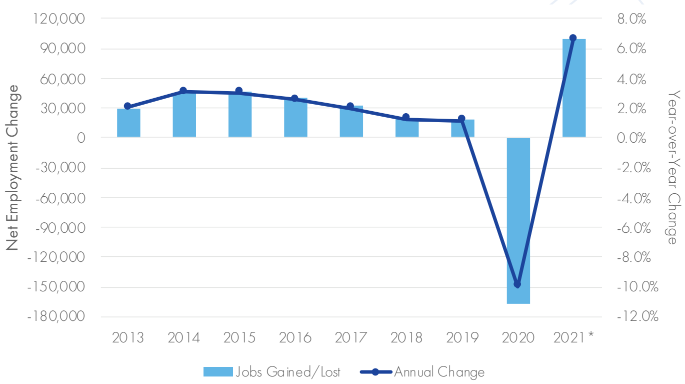
| Property Name | Street Address | Units | Sales Price | Price/Unit |
|---|---|---|---|---|
| Skye at Laguna Niguel | 28100 Cabot Rd., Laguna Niguel | 142 | $51,500,000 | $362,676 |
| Seaview Plaza | 2800 Pacific View Dr., Newport Beach | 100 | $46,200,000 | $462,000 |
| The Regent | 1111 Santa Ana Blvd., Santa Ana | 70 | $19,500,000 | $278,571 |

# Looking Ahead

The healthy rent growth and rapid pace of absorption recorded during the third quarter set the stage for a strong close to 2021 in the Orange County multifamily market. Additional gains are likely next year as well, as the local labor market continues to rebound. The Orange County economy has historically been fueled by a mix of professional, high-tech, and hospitality. All of these sectors are expanding rapidly, with the technology sector highlighted by Irvine-based, electric sport utility vehicle company Rivian. The company, which has more than 1,400 employees in Southern California, has a contract to deliver 100,000 delivery vans to Amazon through 2024.

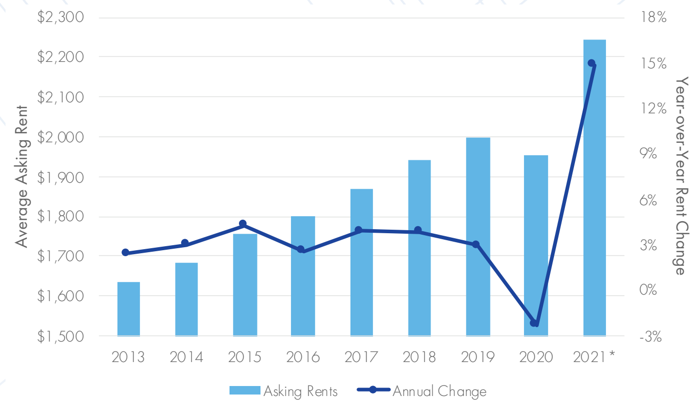
The local investment market is expected to remain active in the next several quarters, with investor demand likely to be fueled by rising absorption and surging rental rates. The Orange County economy has stabilized and is in full recovery mode, and the uncertainty that lingered in the local market for much of 2020 and the first few months of this year, has been replaced by a favorable forecast. Investors are responding to the brighter outlook by stepping up acquisition activity, a trend that is likely to continue in the year ahead. With demand elevated, cap rates should remain low, averaging below 4 percent.

## Employment Forecast



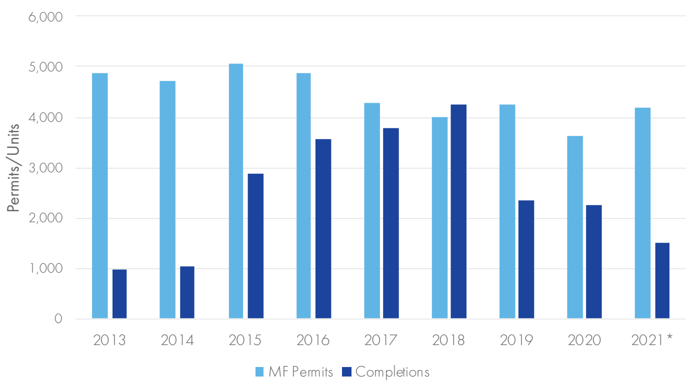

* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

## Rent Forecast



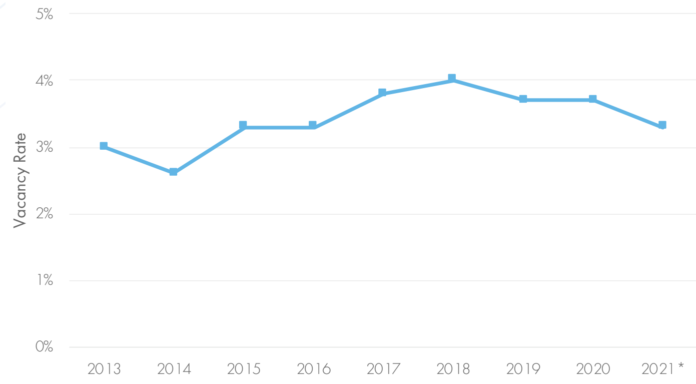

* Year End Forecast
Sources: Northmarq, Reis

## Construction & Permitting Forecast




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

## Vacancy Forecast




* Year End Forecast
Sources: Northmarq, Reis

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