Market Insights

Orange County Multifamily 1Q 2022

Northmarq

Construction Activity

4,203

Units under construction

780

Units delivered (YTD)

Market Fundamentals

3.4%

Vacancy

-20bps | Year over year change

$2,335

Asking Rent

+18.3% | Year over year change

Transaction Activity

$351,300

Median sales price per unit (YTD)

Job Growth Gaining Momentum, Vacancy Remains Low to Start 2022

Highlights

- Stability prevailed in the Orange County multifamily market at the outset to 2022. The vacancy rate remained unchanged, and rents inched higher at a modest pace. While the construction pipeline includes a number of projects, deliveries and absorption were closely aligned to start the year.
- Vacancy held steady in the first quarter at 3.4 percent; this marked the third consecutive quarter at this level. Year over year, the rate dropped 20 basis points.
- Year over year, asking rents advanced 18.3 percent to $2,335 per month. Nearly all of the increase occurred at the end of 2021, and gains were minimal during the first quarter.
- The investment market was dominated by the sale of older, Class C buildings at the start of 2022. Prices dipped in response to the mix of properties changing hands; the median sales price ended the first quarter at approximately $351,300 per unit. Cap rates trended higher, averaging around 4 percent.

Orange County Multifamily Market Overview

The Orange County multifamily market recorded modest gains at the beginning of 2022. The vacancy rate remained unchanged at just 3.4 percent, holding steady for the third consecutive quarter. While vacancy remained in a tight range, the pace of rent growth slowed after rapid gains in the previous year. Area employers have been actively bringing back workers, which should support renter demand for apartments and allow for additional rent growth. However, gains in the first quarter reflected a bit of a pause in the market's upward trajectory in rents. The pace will likely quicken in the coming quarters, as developers bring newer, more expensive units into the market, outpacing last year's deliveries.

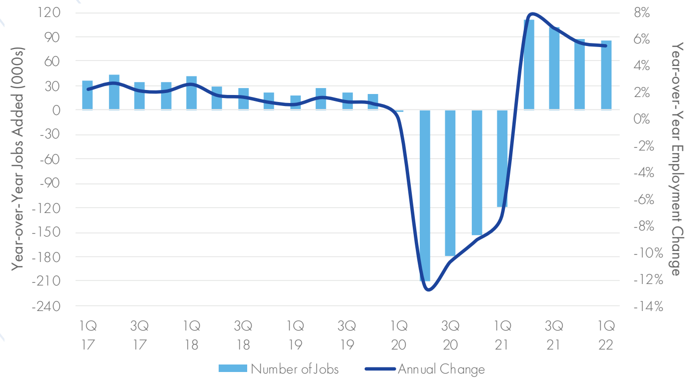
Transaction activity in Orange County occurred at both ends of the quality spectrum during the first quarter. A handful of large, Class A properties in desirable submarkets traded, and these projects sold for more than $500,000 per unit. Outside of these transactions, several older, Class C properties closed in the first quarter. Renter and investor demand for these properties was elevated, given the shortage of lower-cost housing options in the area. As the year progresses, inflation will likely have the greatest impact in the Class C segment, where implementing stronger rent increases is more challenging. In the coming quarters, transaction activity should gain greater momentum among newer, higher-quality properties, where rents are often influenced by the health of the overall economy and housing prices.

Employment

- The local labor market continued to rebound at a steady pace at the beginning of 2022. Employers in Orange County added 18,200 positions during the first quarter.
- Year over year, the employment market expanded by 85,000 jobs, a 5.5 percent growth rate. Even after accounting for recent additions, total employment in Orange County remains below the pre-pandemic peak, allowing room for further recovery in the coming quarters.
- Leisure and hospitality is one of the key industries in Orange County, and employment in the sector is making a rapid rebound after steep declines in 2020. During the past 12 months, 60,000 leisure and hospitality jobs have been added back in the sector. Further additions are forecast for the second quarter.
- **Forecast:** Area employers are forecast to continue to add back workers in the coming quarters. Total employment in Orange County is expected to expand by nearly 65,000 jobs in 2022 and grow by 4 percent.

"Year over year, the employment market grew by 5.5 percent.

Employment Overview



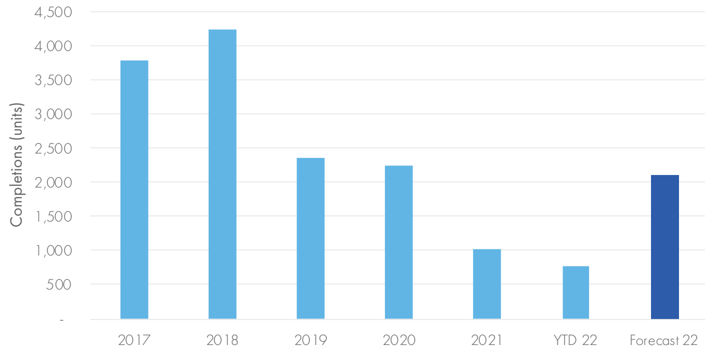
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

"Projects totaling more than 4,200 units are currently under construction.

- Multifamily developers were active at the start of this year with 780 units coming online in the first quarter. This represented nearly 80 percent of the total deliveries for all of 2021.
- Projects totaling more than 4,200 units are currently under construction in Orange County, a 9 percent decrease from one year ago. The Irvine submarket is one of the most active submarkets for new development; more than 1,500 units were under construction in Irvine in the first quarter.
- Multifamily permitting in Orange County slowed during the first quarter with developers pulling nearly 750 permits. Permitting activity at the start of this year was down 48 percent from the same period in 2021.
- **Forecast:** After a lull in deliveries in 2021, completions this year should be closer to the market's long-term averages. Projects totaling approximately 2,100 units are forecast to come online in 2022.

Development Trends



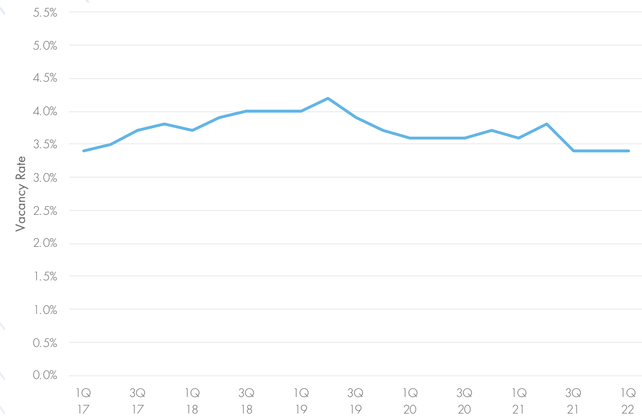
Sources: Northmarq, Reis

Vacancy

- The vacancy rate in Orange County remained unchanged during the first three months of the year, holding steady at 3.4 percent. The rate averaged 3.7 percent from 2017 through 2021.
- Year over year, the vacancy rate tightened by 20 basis points as absorption outpaced new supply growth by more than 5 percent. Absorption spiked in the third quarter of 2021, totaling more than 1,100 units. During the first quarter, renters moved into a net of more than 700 units.
- Although the overall rate remained unchanged in the first quarter, vacancies declined in Class B and Class C properties. The combined vacancy rate in Class B and Class C units dropped 40 basis points in the first quarter to 2.2 percent.
- **Forecast:** Multifamily deliveries are expected to closely track absorption in the coming quarters, keeping the vacancy rate fairly steady. The rate is forecast to rise 10 basis points in 2022, ending the year at 3.5 percent.

> Year over year, vacancy tightened by 20 basis points.

Vacancy Trends



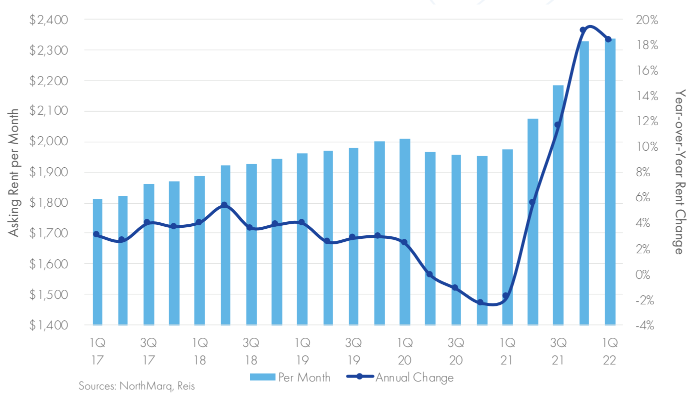
Sources: NorthMarq, Reis

Rents

> Asking rents rose to $2,335 per month in the first quarter.

- Asking rents in Orange County ticked higher at the start of this year, inching up just 0.3 percent to $2,335 per month. The annual gain is much stronger; year over year through the first quarter, asking rents spiked 18.3 percent.
- The most expensive rents are in South Orange County including Newport Beach, Irvine, and Laguna Hills with average rents between $2,700 per month to $3,000 per month in these areas. These submarkets have posted much different rates of rent growth in the past year; rents in Laguna Hills have advanced at one of the fastest rates in all of Orange County, spiking by more than 27 percent. In Newport Beach, rents are up less than 15 percent year over year.
- The pace of rent growth slowed at the high end of the market at the beginning of this year. Asking rents in Class A properties rose just $10 per month during the first quarter to $2,783 per month.
- **Forecast:** Rents in Orange County are forecast to end the year at approximately $2,400 per month, up about 3 percent from 2021 levels. Prior to last year's spike, rent growth in Orange County had been averaging 2.5 percent per year since 2015.

Rent Trends



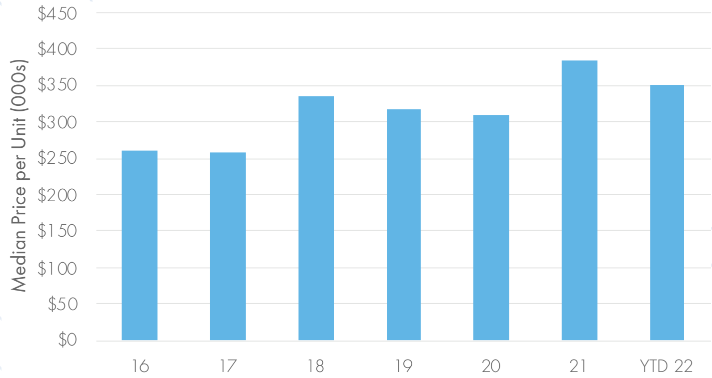
Sources: NorthMarq, Reis

Multifamily Sales

- Multifamily sales transaction volume in the first quarter was nearly identical to levels in the same period one year ago. Transaction activity peaked in the final few months of 2021.
- The median sales price reached nearly $351,300 per unit at the start of this year, down 9 percent from the median price in 2021. In transactions involving Class A properties, the median price topped $500,000 per unit.
- Cap rates in Orange County inched higher in the first quarter, averaging approximately 4 percent. Properties were trading with cap rates around 3.5 percent at the end of last year.

> The median sales price in the first quarter was $351,300 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

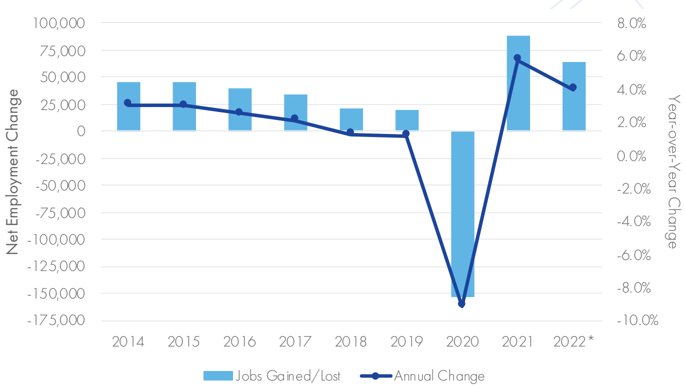
Property Name	Street Address	Units	Sales Price	Price/Unit
The Bryant at Yorba Linda	25550 River Bend Dr., Yorba Linda	400	$205,500,000	$513,750
Allure Apartments	3099 W Chapman Ave., Orange	282	$142,000,000	$503,546
Vine-Fullerton Apartments	1321 S Vine Ave., Fullerton	98	$32,300,000	$329,592
Beach West Apartments	7661-7681 Baylor Dr., Westminister	54	$18,970,000	$351,296

Looking Ahead

The Orange County multifamily market surged in previous periods with modest growth carrying over into 2022. Multifamily developers are expected to remain active in the remainder of the year with more than 4,200 units currently under construction, although not all of these units will be completed this year. Supply growth is expected to closely track absorption levels in the coming quarters, holding the vacancy rate fairly consistent with the market's long-term average. The rate may inch slightly higher in Irvine and Central Orange County, the submarkets where construction is more concentrated. Rents are forecast to rise but at a much more modest pace than was recorded in 2021.

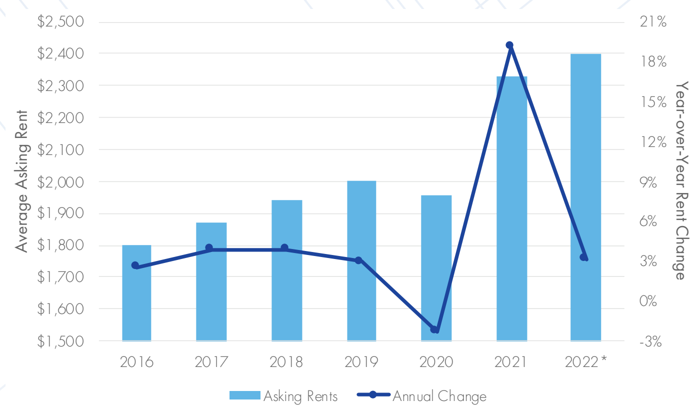
The local investment market peaked at the end of last year and then leveled off during the first quarter, following a familiar pattern for Orange County. Sales velocity will likely accelerate in the coming quarters, particularly for some of the higher-quality properties. In the first few months of 2022, transaction activity was concentrated among older, Class C properties. While there will always be a market for this sort of product, the traditional transaction mix in the market includes a healthy number of Class A and Class B properties that serve the region's high-wage, professional workforce. A greater number of these institutional-grade properties will likely trade in the coming quarters, pushing the median per-unit price higher.

Employment Forecast



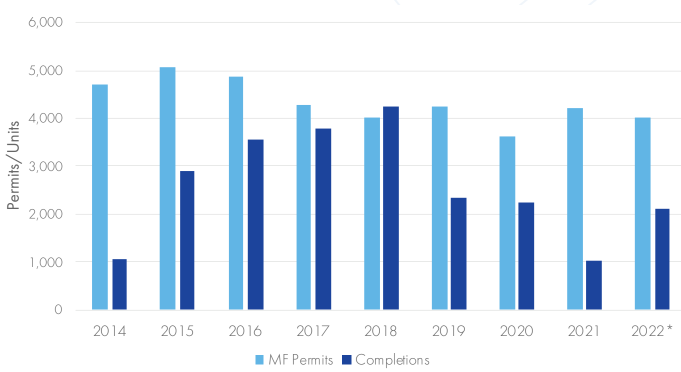
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



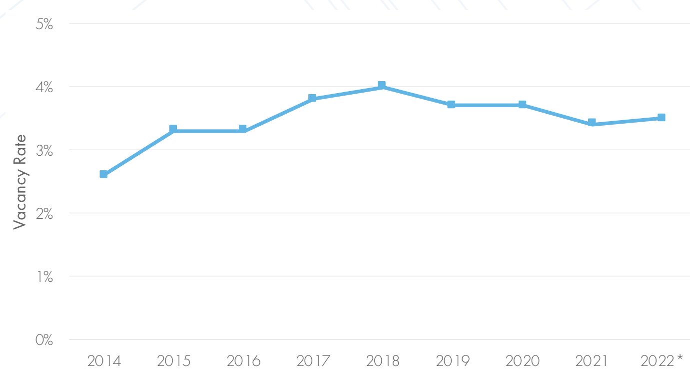
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

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About Northmarq

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