

Market Insights

Orange County Multifamily 2Q 2022



Construction Activity



3,948

Units under construction

1,173

Units delivered (YTD)

Market Fundamentals



3.1%

Vacancy

-70bps

Year over year change

\$2,466

Asking Rent

+18.8%

Year over year change

Transaction Activity



\$369,300

Median sales price per unit (YTD)

Rent Growth Accelerates as Vacancy Ticks Lower

Highlights

- Multifamily operating conditions improved in Orange County during the second quarter. Local vacancy tightened and asking rents spiked. The pace of apartment completions has accelerated to this point in 2022, following a slowdown in deliveries last year.
- The vacancy rate improved during the second quarter, dropping 30 basis points in the last three months to 3.1 percent. Year over year, vacancy has tightened by 70 basis points.
- Asking rents jumped in recent months, rising 5.6 percent in the second quarter to \$2,466 per month. Apartment rents have spiked 18.8 percent from one year ago.
- The multifamily investment market made gains during the second quarter. The median sales price of properties that traded in the past three months reached \$416,700 per unit; year to date, the median sales price is \$369,300 per unit. Cap rates held fairly steady averaging around 4 percent.

Orange County Multifamily Market Overview

The Orange County multifamily market strengthened during the second quarter. After maintaining the same vacancy rate for three consecutive periods, local vacancy dropped 30 basis points during the last three months, reaching its lowest point since 2015. As vacancy tightened, asking rents rose at an accelerating pace, spiking by more than 5.5 percent in the past three months. Renter demand is being supported by a strengthening local labor market. Multifamily development activity dipped in 2021 and has since returned closer to typical levels. The number of completed rental units through the first half of 2022 has already outpaced the full-year total in 2021.

Apartment properties in Orange County have been selling at a consistent pace during the past several quarters. While transaction activity has been fairly steady, there has been some quarterly pricing fluctuation based on the mix of properties that have changed hands. The median price during the second quarter reached nearly \$416,700 per unit, up nearly 20 percent from the start of the year. Transaction activity picked up in the sale of Class B properties in recent months. Nearly all the transactions in Orange County to this point in the year were concentrated in the northern half of the region with a handful of deals around Santa Ana.

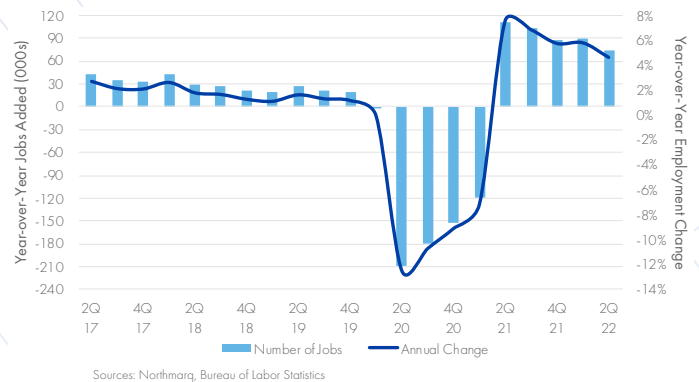
Employment

- The Orange County employment market continued to expand in recent months with the addition of 14,000 jobs in the second quarter. This followed gains of more than 22,000 positions in the first three months of the year.
- During the past 12 months, area employers added 73,200 workers, a 4.6 percent rate of growth. The Orange County economy has historically added an average of about 35,000 jobs per year in a stable labor market. The pace of growth is likely to cool in the second half of 2022.
- The leisure and hospitality sector has been recovering during the past several quarters as the economy reopened and travel has rebounded. The sector has expanded in each of the past eight quarters and is down 5 percent from the pre-COVID figure. Year over year, leisure and hospitality employment has advanced by more than 20 percent, adding 37,600 positions.
- **Forecast:** The Orange County labor market is forecast to continue to recover in the coming periods, although growth will be more modest in the second half. Total employment is expected to expand by 3.1 percent in 2022 and grow by 50,000 jobs.



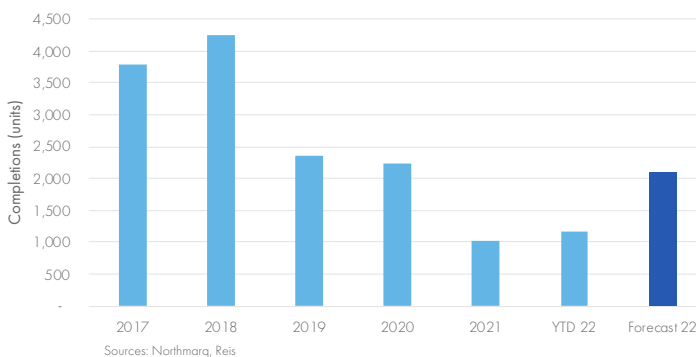
During the past 12 months, area employers added 73,200 workers.

Employment Overview



Projects totaling 3,948 units are under construction.

Development Trends



Development and Permitting

- Multifamily development activity slowed during the second quarter as nearly 400 units came online, down from 780 units delivered at the start of the year. Year-to-date deliveries have already surpassed the total for the full year in 2021.
- The construction pipeline has thinned in recent periods as deliveries have accelerated. Projects totaling 3,948 units are under construction, down 26 percent from one year ago. More than half of the units under construction are located in either Santa Ana or Irvine.
- Permitting activity accelerated in recent months with developers pulling permits for approximately 1,370 units in the second quarter. Permits for nearly 2,100 units have been issued year to date.
- **Forecast:** Approximately 2,100 apartment units are slated to come online in 2022, roughly double the number of deliveries from the previous year. Multifamily developers have completed an average of nearly 2,900 units annually since 2015.

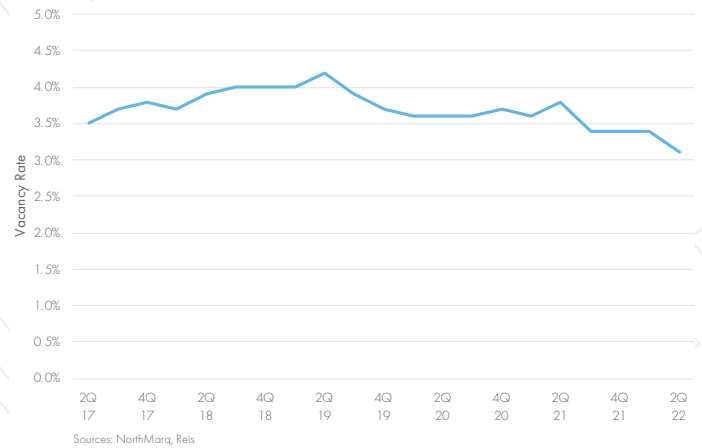
Vacancy

- Apartment vacancy in Orange County dropped 30 basis points to 3.1 percent during the second quarter, after holding steady in late 2021 and in the first three months of this year.
- Year over year, local vacancy improved by 70 basis points. The current rate is at its lowest point since mid-2015. Net absorption gained momentum during the second quarter, nearly tripling the total from the first three months of this year.
- The lowest vacancy rates can be found in the northern region of Orange County, specifically in the Brea and Buena Park submarkets. Apartment construction activity in these submarkets has been minimal in recent years, and rental rates are below the market average. The vacancy rates in these two submarkets are approximately 1.5 percent.
- **Forecast:** Vacancy rates are forecast to end this year at 3.2 percent, 20 basis points lower than at the end of 2021. Vacancy has remained in a tight range since 2017 and has generally trended higher since 2019.



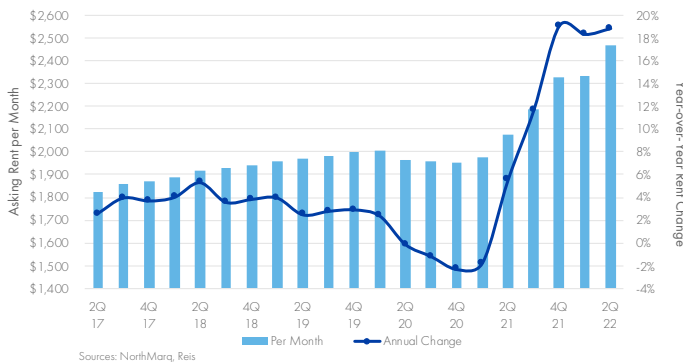
Year over year, local vacancy improved by 70 basis points.

Vacancy Trends



Average rents rose 5.6 percent in the past three months.

Rent Trends



Rents

- Apartment rents in Orange County surged during the second quarter, following a modest increase at the start of the year. Asking rents rose 5.6 percent in the past three months to \$2,466 per month.
- Year over year, asking rents rose nearly 19 percent. Irvine, the region's most populous submarket, currently records the most expensive rents in the area at roughly \$3,030 per month. Asking rents in Irvine spiked more than 25 percent in the past year.
- Rapid rent growth is being recorded in Class A properties in Orange County. The average Class A asking rent reached \$2,950 per month in the second quarter, 24 percent higher than one year ago.
- **Forecast:** Average rents in Orange County are expected to continue to climb in the remainder of the year, though the pace of growth will be more modest in the coming quarters. Local asking rents are forecast to reach roughly \$2,495 per month, up more than 7 percent for the year.

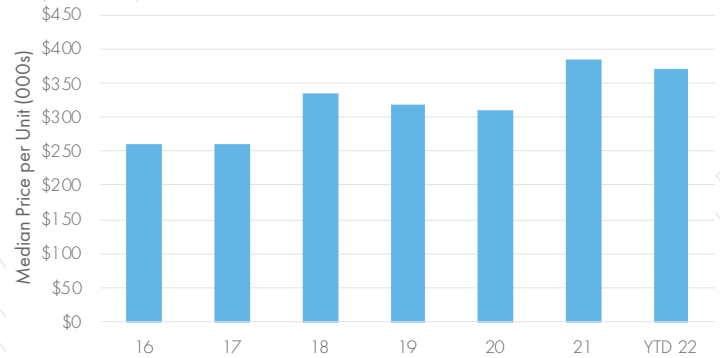
Multifamily Sales

- Multifamily sales activity in the second quarter was nearly identical to levels from the first quarter. Sales volume has been steady in recent periods; multifamily sales in the first half of this year was down 7 percent compared to levels in the first half of last year.
- The median sales price through the first half of the year was \$369,300 per unit, down 4 percent from the 2021 figure. Prices rose in the second quarter; the median price in the last three months was nearly \$416,700 per unit.
- Cap rates trended lower at the end of last year before ticking higher in the first half of 2022. Cap rates averaged 4 percent during the second quarter.



The median price in the last three months was nearly **\$416,700 per unit.**

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

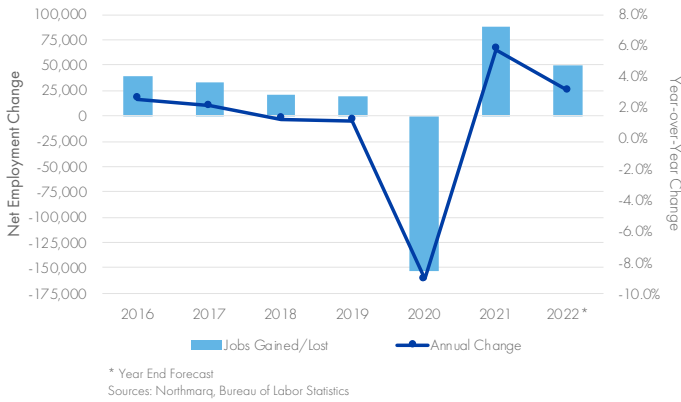
Property Name	Street Address	Units	Sales Price	Price/Unit
580 Anton	580 Anton Blvd., Costa Mesa	250	\$172,200,000	\$688,800
The Herald	150 E Crowther Ave., Placentia	215	\$130,075,000	\$605,000
The Monterey Garden Apartments	1750 Sherry Ln., Santa Ana	100	\$29,050,000	\$290,500
Sherry Lane Garden Homes	1920 Sherry Ln., Santa Ana	62	\$27,000,000	\$435,484

Looking Ahead

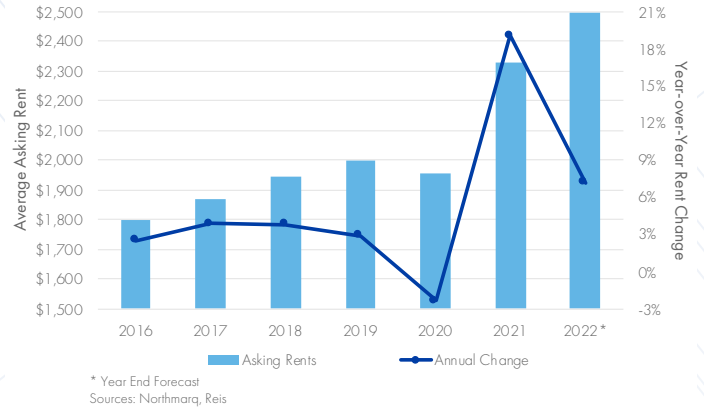
The Orange County multifamily market is forecast to post a very strong performance in the second half of 2022. Asking rents are expected to continue to climb across the region, although the rapid gains recorded in the second quarter are unlikely to be repeated. On the supply side, multifamily deliveries began to slow in 2019, and inventory growth has been below trend for the past few years. In the coming quarters, the pace of construction will gain momentum, although development will be concentrated in only a handful of submarkets. Deliveries and absorption are expected to closely track one another in the near term, which should result in a very steady—and consistently low—vacancy rate in the coming quarters.

The local investment market is set to remain competitive in the second half of 2022. The pace of sales will likely hold fairly steady in the next few months before accelerating at the end of the year. Per-unit pricing rose in the second quarter, as activity picked up in the sale of middle-tier assets with a handful of Class A properties trading as well. Sales prices will remain a function of the mix of assets that are available for acquisition, but the rapid increase in rents should support pricing across Orange County. While borrowing costs are expected to rise, area cap rates are not expected to increase significantly. Cap rates have been averaging around 4 percent in recent quarters and are unlikely to push much higher.

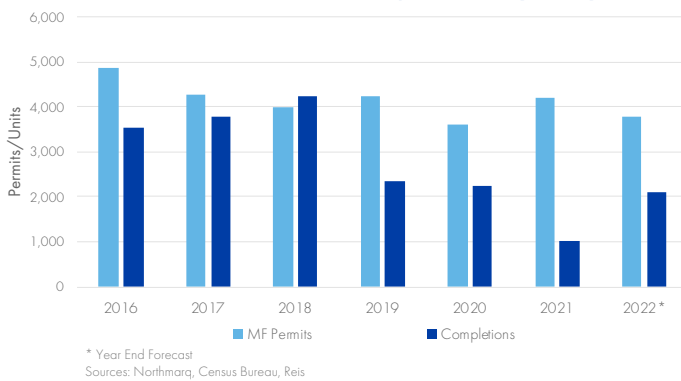
Employment Forecast



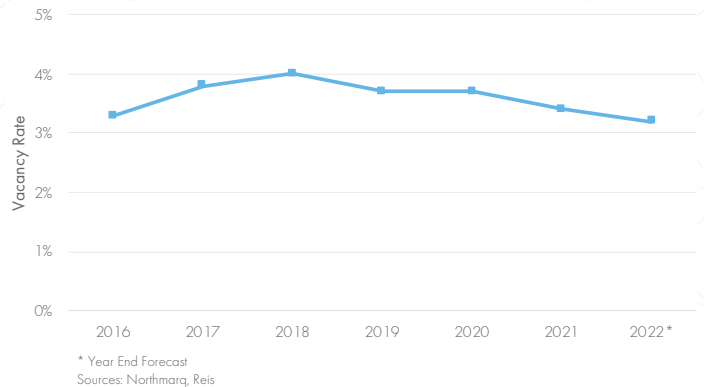
Rent Forecast



Construction & Permitting Forecast



Vacancy Forecast





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About Northmarq

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 700 employees, loan servicing volume approaching \$70 billion, and \$30+ billion in transaction volume.