Market Insights

Orange County Multifamily 3Q 2022

Northmarq

Construction Activity

4,119

Units under construction

1,173

Units delivered (YTD)

Market Fundamentals

3.2%

Vacancy

-20bps | Year over year change

$2,499

Asking Rent

+14.3% | Year over year change

Transaction Activity

$366,400

Median sales price per unit (YTD)

Vacancy Low, Rents Continue to Trend Higher

Highlights

- Multifamily property performance metrics were strong in Orange County during the third quarter. Vacancy remained low, and asking rents continued to trend higher. Multifamily developers are expected to increase deliveries in the final months of the year.

- The vacancy rate inched higher in recent months as absorption levels slowed from the previous period. Area vacancy rose 10 basis points during the third quarter to 3.2 percent. Year over year, the rate is down 20 basis points.

- Asking rents continued to push higher in the last three months, rising 1.3 percent during the third quarter to $2,499 per month. Year over year, local apartment rents are up 14.3 percent.

- The local investment market slowed in recent months, as the pace of deals pulled back during the third quarter. The median price in transactions that have closed year to date is $366,400 per unit, slightly lower than in 2021. Cap rates held fairly steady to this point in the year, as most properties are selling with cap rates between 3.5 percent and 4.25 percent.

Orange County Multifamily Market Overview

Multifamily operating conditions in Orange County remained healthy during the last three months, although the market is showing some signs of a slowing pace of renter demand. After a strong start to the year, net absorption slowed during the third quarter, and the local vacancy rate inched higher. Despite the modest uptick, vacancy remains well below its historical average, and the tight conditions continued to support rent growth. Going forward, annual rent growth should return closer to the mid-3 percent range. The pace of deliveries has been uneven to this point in 2022, but a few projects are forecast to come online through the remainder of this year, and construction should be active in 2023.

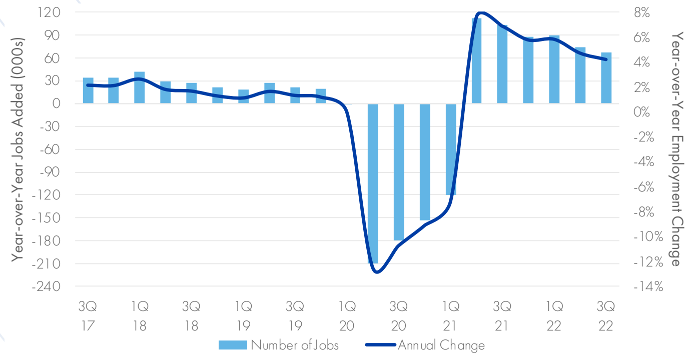
Fewer multifamily properties sold in Orange County during the third quarter, and transaction activity year to date is down about 25 percent from levels recorded in 2021. Sales velocity has slowed even as properties are posting stronger operational performance, with low vacancies and rents that are up nearly 15 percent year over year. To this point in 2022, middle-tier and lower-tier assets have accounted for the largest share of sold properties. The transaction mix may skew toward newer, Class A properties through the remainder of this year and into 2023. Sales activity to this point in the year is heavily concentrated in the northern half of the region with a handful of deals around Anaheim closed during the third quarter.

Employment

- Employers in Orange County continued to add jobs at a strong pace during the third quarter with the addition of 14,400 workers. These gains closely tracked the pace that has been in place since early 2021. Year over year, total employment expanded by 67,000 positions, an increase of 4.2 percent.
- The white-collar employment base recorded healthy growth in recent quarters. During the past 12 months, the professional and business services sector grew by 4.5 percent and added 14,500 jobs.
- Providence, the Washington-based health system, recently announced plans to invest $712 million into facilities in Orange County. The health organization is adding new medical centers in both San Clemente and Rancho Mission Viejo as well as a new patient tower for Providence Mission Hospital.
- **Forecast:** Local employers are expected to continue to add jobs during the fourth quarter but at a slightly slower pace than in recent periods. Total employment is projected to advance by 60,000 workers in 2022, an annual increase of 3.7 percent.

> Year over year, total employment expanded by 67,000 positions.

Employment Overview



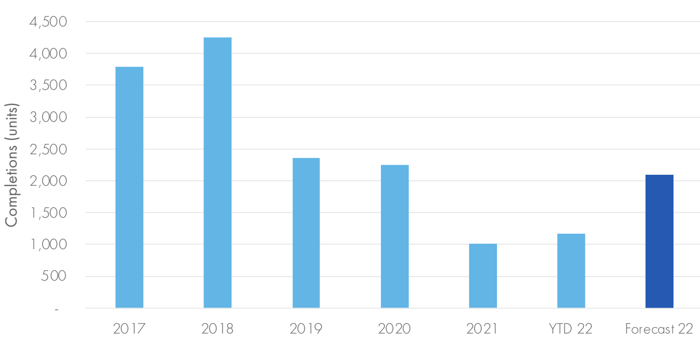
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

- Multifamily development slowed in recent months, as no significant projects came online during the third quarter. Nearly 1,200 apartment units were completed in the first half of 2022, and the pace of deliveries is expected to accelerate in the final months of the year.
- Projects totaling roughly 4,120 units are currently under construction, down 15 percent from one year ago. While development is ongoing throughout the region, two large projects are underway in Irvine and Santa Ana, which account for roughly 35 percent of the total construction pipeline.
- Multifamily permitting remained active in recent months, as more than 1,200 permits were issued during the third quarter. The number of permits pulled year to date is up 3 percent from the same period last year.
- **Forecast:** Apartment construction activity is expected to accelerate in the coming months, as projects totaling nearly 2,100 units are scheduled to come online in 2022. Annual completions have averaged more than 2,700 units during the past five years.

> Projects totaling roughly 4,120 units are currently under construction.

Development Trends



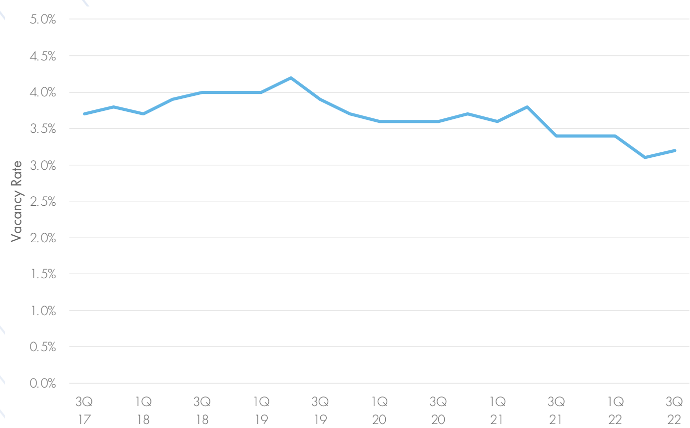
Sources: Northmarq, Reis

Vacancy

- As the pace of absorption slowed in recent months, vacancy ticked higher during the third quarter, rising 10 basis points to 3.2 percent. The rate still remains well below its five-year trailing average of 3.7 percent.
- Despite the recent uptick, vacancy in Orange County has tightened by 20 basis points year over year. While vacancy inched lower in most areas throughout the region, the largest decline occurred in the South Anaheim submarket, where the rate fell 150 basis points during the past year to 3.4 percent.
- Most of the improvements in vacancy in recent quarters occurred in middle-tier and lower-tier properties. During the last 12 months, the vacancy rate in Class B and Class C units fell 40 basis points to 2.2 percent. The combined vacancy rate in Class B and Class C properties has remained below 3 percent in each of the past 15 quarters.
- **Forecast:** Local vacancy is expected to inch slightly higher in the fourth quarter. Vacancy is projected to finish the year at 3.3 percent, down 10 basis points from the end of 2021.

> “ Year over year, local vacancy dipped 20 basis points.

Vacancy Trends



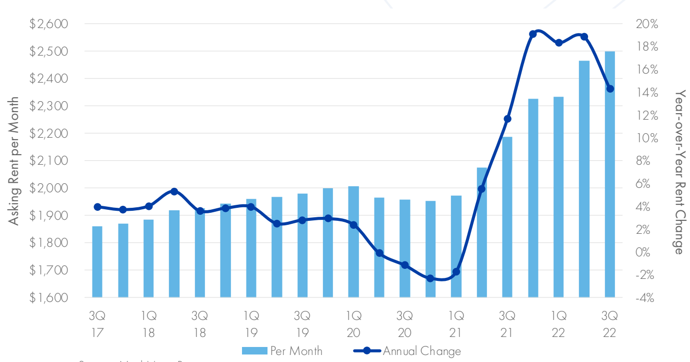
Sources: NorthMarq, Reis

Rents

- Asking rents continued to trend higher during the third quarter, though at a more modest pace than in the previous period. Average rents rose 1.3 percent during the last three months to $2,499 per month.
- Year over year, local apartment rents climbed 14.3 percent. The largest gains during the last 12 months occurred in the Laguna Hills submarket, where rents spiked more than 20 percent to $2,863 per month.
- While asking rents jumped across all asset classes in recent quarters, the fastest increases occurred in upper-tier properties. Asking rents in Class A units rose 15.3 percent during the past year to $2,979 per month.
- **Forecast:** Asking rents in Orange County are expected to rise at a modest pace in the final months of the year. Apartment rents are projected to climb 7.7 percent in 2022 to $2,505 per month.

> “ Year over year, local rents climbed 14.3 percent.

Rent Trends



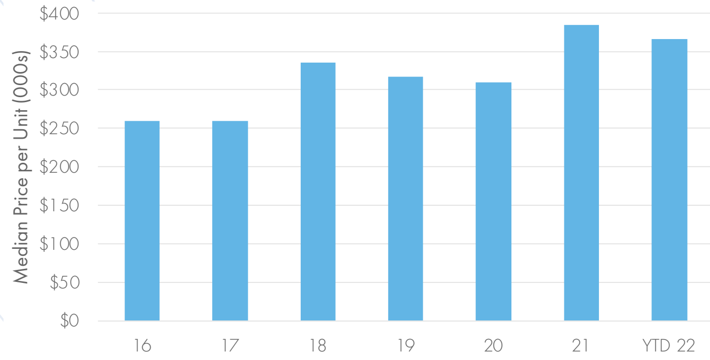
Sources: NorthMarq, Reis

Multifamily Sales

- The pace of deals slowed during the third quarter, as transaction activity in the last three months declined nearly 30 percent from the previous period. Additionally, the number of properties that have traded year to date, is down about 25 percent from levels recorded during the same period in 2021.
- Following a sharp increase in 2021, per-unit prices have retreated slightly year to date. The median sales price thus far in 2022 is $366,400 per unit, down 5 percent from the median price in 2021. A handful of Class A properties traded during the first half of the year at prices topping $500,000 per unit, but activity during the third quarter was primarily limited to Class B and Class C assets.
- Cap rates continue to maintain a fairly tight range across the region, as most properties are selling with cap rates between 3.5 and 4.25 percent. While interest rates have trended higher, there has not been a significant rise in cap rates to this point.

“ The median sales price thus far in 2022 is $366,400 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

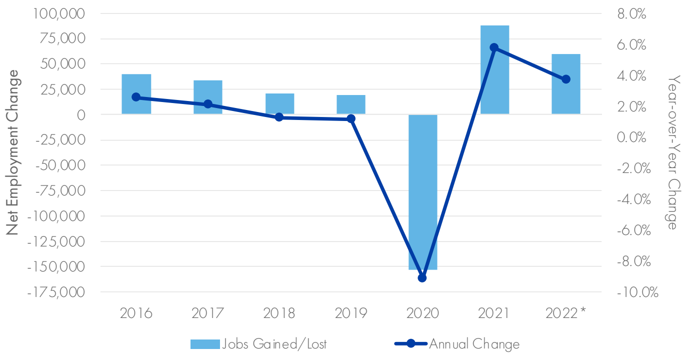
Property Name	Street Address	Units	Sales Price	Price/Unit
Madison Park	2235 W Broadway., Anaheim	768	$283,500,000	$369,141
310 Jefferson Apartments	310 S Jefferson St., Placentia	416	$180,000,000	$432,692
Belage Manor Apartments	1660 W Broadway., Anaheim	180	$41,250,000	$229,167
Huntington Terrace	18700 Florida St., Hunington Beach	80	$25,250,000	$315,625

Looking Ahead

The Orange County multifamily market is projected to hold fairly steady in the final months of the year with some potential cooling expected in 2023. Apartment development activity will pick up in the coming months, but vacancy in Orange County is generally very steady and is not expected to fall anywhere outside of recent ranges in the coming quarters. Short-term demand levels offer the greatest volatility. Since 2016, net absorption has averaged about 2,700 units per year, but the market is on pace to fall short of that figure this year and may not reach that total again in 2023. Despite that uncertainty about demand levels, the market should continue to post mostly steady operating fundamentals, particularly if employers remain active, adding workers in the high-wage professional sectors that fuel the Orange County economy.

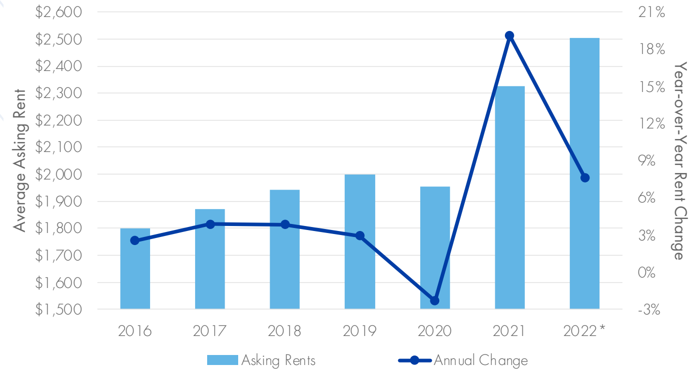
The local investment market is projected to remain competitive in the coming quarters, but total transaction activity may be limited and concentrated at the top of the quality spectrum. Deals will still get done; two large-scale, Class A properties sold in the Irvine area in October, both trading at prices topping $500,000 per unit. These are likely the types of transactions that will lead the investment environment in the coming quarters. Cap rates in Orange County generally remain low, even in periods where the costs of capital are on the rise. The current environment may result in a bit of an expectations gap between buyers and sellers into 2023. Institutions that can raise capital from a variety of sources will likely be the most active buyers and acquire assets at the top-end of the quality spectrum.

Employment Forecast



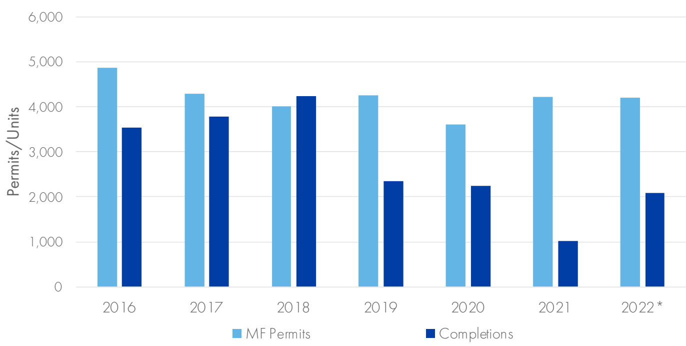
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



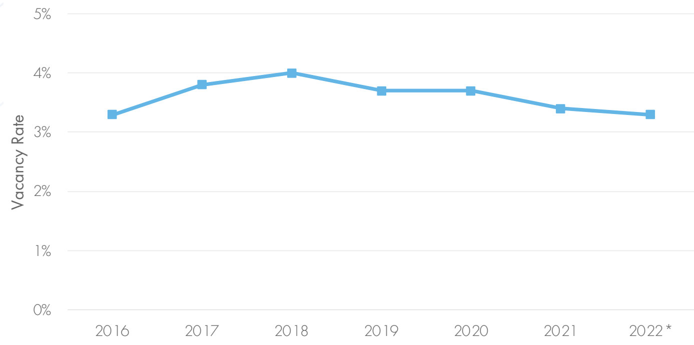
* Year End Forecast
Sources: Northmarq, Reis

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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