

# Tight operating conditions supporting new development

## CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **6,240**

UNITS DELIVERED **1,859**

## MARKET FUNDAMENTALS



VACANCY RATE **3.3%**

YEAR-OVER-YEAR CHANGE **-10bps**

ASKING RENTS **\$2,490**

YEAR-OVER-YEAR CHANGE **+7.0%**

## TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$369,100**

## HIGHLIGHTS

- Multifamily property fundamentals in Orange County softened slightly during the fourth quarter, but the overall outlook remains positive. Apartment developers are actively bringing new projects online and will ramp up deliveries in the coming quarters.
- Local vacancy ticked higher in the final months of 2022 but remains below the long-term trend. Vacancy rose 10 basis points in the fourth quarter to 3.3 percent. For the full year, the rate dipped 10 basis points.
- Local apartment rents trended lower in the fourth quarter, retreating by less than 1 percent to \$2,490 per month. Despite the reduction in the fourth quarter, rents still advanced 7 percent in 2022.
- The Orange County multifamily investment market picked up slightly at the close of the year, but total sales activity in 2022 was down significantly from prior year levels. The median sales price during the past 12 months was \$369,100 per unit, down slightly from 2021. Cap rates are holding fairly steady with most properties selling with cap rates between 3.75 percent and 4.25 percent.

## ORANGE COUNTY MULTIFAMILY MARKET OVERVIEW

Overall operating conditions in Orange County remain strong despite some softening in the final months of 2022. Although local vacancy inched higher during the fourth quarter, the rate finished 2022 at 3.3 percent, its lowest year-end figure since 2016. Absorption levels during the past 12 months have tapered off from recent years, but the region's healthy local economy and growing labor market have kept occupancy levels consistently high. Asking rents retreated slightly during the fourth quarter, after posting notable gains in the first three quarters of 2022. The strong conditions prompted apartment development activity to gain momentum during the last few months of 2022, with nearly 1,860 units completed for the full year.

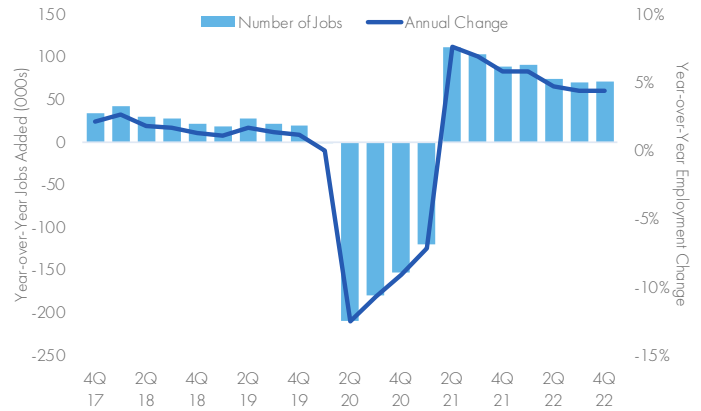
While the local multifamily investment market picked up slightly in the fourth quarter, overall sales activity cooled during the past 12 months, as transaction volume fell 30 percent from 2021 to 2022. Sales prices also dipped in recent quarters. The median sales price through the end of 2022 was \$369,100 per unit, down slightly from the 2021 figure. Although Class C properties accounted for the bulk of the transactions in recent months, there were a handful of newer, Class A assets that traded as well. During 2022, the median sales price in the lower-tier properties was around \$290,000 per unit while the upper-tier assets traded with a median price of nearly \$540,000 per unit.

## EMPLOYMENT

- Area employers continued to add workers to payrolls at a healthy pace during the fourth quarter with the addition of 16,000 jobs. Year over year, the local labor market grew by 4.4 percent and added 70,900 positions.
- Orange County’s leisure and hospitality sector outperformed the overall employment market for the second straight year. During 2022, this industry grew by 22,400 jobs, an annual gain of 10.9 percent.
- Terran Orbital Corp., a Florida-based satellite manufacturer, secured a \$100 million investment from Lockheed Martin that will allow the company to expand its manufacturing operations in Irvine. Terran Orbital has added nearly 150,000 square feet of commercial space in Orange County in the past year and will continue to expand its local workforce in 2023.
- **FORECAST:** Following robust job growth in 2021 and 2022, total employment is expected to expand at a more moderate pace in the coming quarters. The local labor market is projected to grow roughly 1 percent in 2023 and add 16,000 jobs.

*Year over year, the local labor market grew by 4.4 percent.*

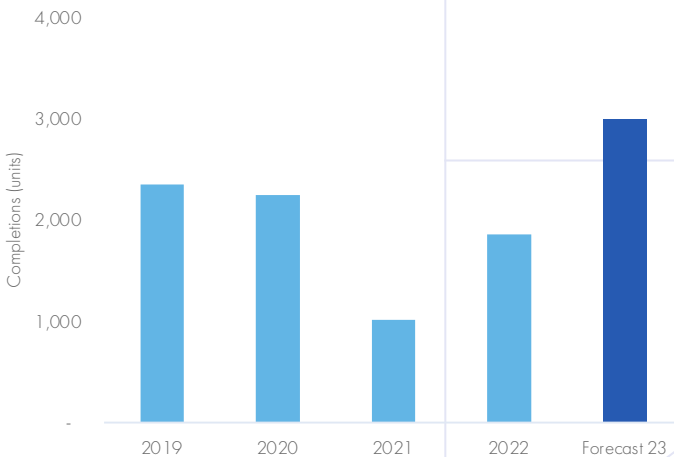
### EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

*Projects totaling 6,240 units are currently under construction.*

### DEVELOPMENT TRENDS



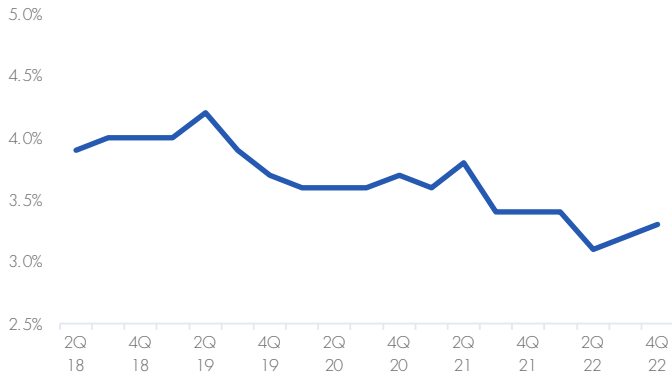
Sources: Northmarq, REIS

## DEVELOPMENT & PERMITTING

- Multifamily construction activity picked up during the fourth quarter after no significant projects came online in the previous period. Approximately 685 apartment units were completed in the final months of 2022, bringing the annual total to nearly 1,860 units.
- Projects totaling 6,240 units are currently under construction throughout Orange County, up 19 percent from one year ago. Nearly one-third of the construction pipeline is concentrated in two large projects located in Santa Ana and Irvine.
- Multifamily permitting slowed slightly in the last few months of the year, as developers pulled permits for 960 units during the fourth quarter, down 27 percent from the previous period. Despite the recent dip, nearly 4,500 multifamily permits were issued during 2022, up 10 percent from the trailing five-year average.
- **FORECAST:** Apartment development activity is projected to pick up in the next several quarters, as projects totaling approximately 3,000 units are scheduled to come online in 2023.

## Year over year, vacancy improved by 10 basis points.

### VACANCY TRENDS



Sources: Northmarq, REIS

### VACANCY

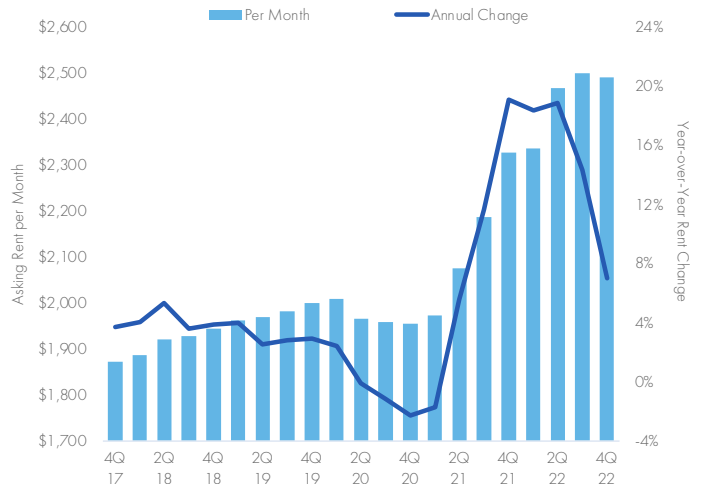
- Local vacancy ticked higher in the fourth quarter, rising 10 basis points in the last three months of 2022 to 3.3 percent. Historically, the rate typically fluctuates in the low- to mid-3 percent range.
- Year over year, vacancy improved by 10 basis points. The lowest vacancy rate in the region is being recorded in Buena Park, where the rate fell 20 basis points in 2022 to 1.5 percent. The tight vacancy conditions in this submarket are primarily due to below-average rents, a large population, and limited construction in recent years.
- Occupancy levels continue to be highest in mid-tier and lower-tier properties. The combined vacancy rate in Class B and Class C units fell 20 basis points during 2022 to 2.4 percent.
- **FORECAST:** Area vacancy is expected to inch higher in the coming quarters but will stay in line with the long-term average in the region. The vacancy rate is projected to rise 20 basis points in 2023 to 3.5 percent.

### RENTS

- After healthy increases in recent periods, apartment rents retreated during the fourth quarter. Asking rents dipped less than 1 percent in the final months of 2022 to \$2,490 per month.
- Despite the recent decline, rents are up 7 percent year over year. Irvine, the largest and one of the most expensive submarkets in Orange County, is posting some of the strongest rent spikes. Asking rents in Irvine rose 8.2 percent in 2022 to \$2,944 per month.
- Rent growth was consistent across the quality spectrum in 2022. Class A properties finished the fourth quarter at \$2,964 per month while the combined asking rent in Class B and Class C units reached \$2,113 per month.
- **FORECAST:** Asking rents are projected to tick higher in coming quarters but the pace of growth will lag levels recorded in recent years. Apartment rents in Orange County are expected to reach \$2,550 per month by the end of 2023, an annual increase of nearly 2.5 percent.

## Rents are up 7 percent year over year.

### RENT TRENDS



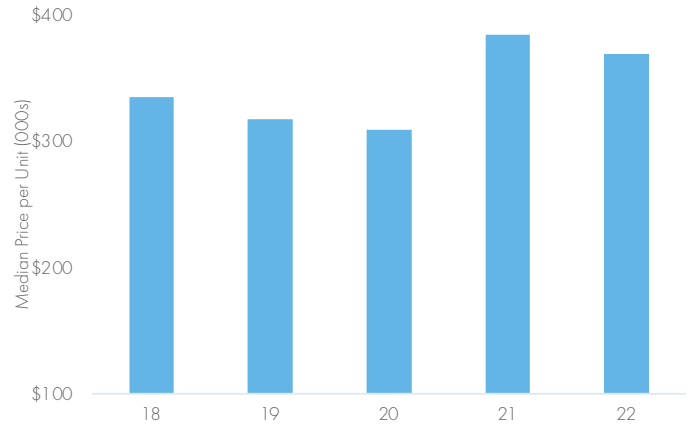
Sources: Northmarq, REIS

## MULTIFAMILY SALES

- Multifamily sales activity picked up slightly toward the end of 2022, as deal volume rose 40 percent from the third quarter to the fourth quarter. The number of transactions during the past 12 months is down nearly 30 percent from the 2021 total.
- Sales prices have come down slightly from the sharp increases in 2021. The median sales price through the end of 2022 was \$369,100 per unit, down approximately 4 percent from the median price in 2021.
- Cap rates have held fairly steady in recent periods. Most properties are selling with cap rates between 3.75 percent and 4.25 percent.

The median sales price through the end of 2022 was \$369,100 per unit.

### INVESTMENT TRENDS



Sources: Northmarq, CoStar

## RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

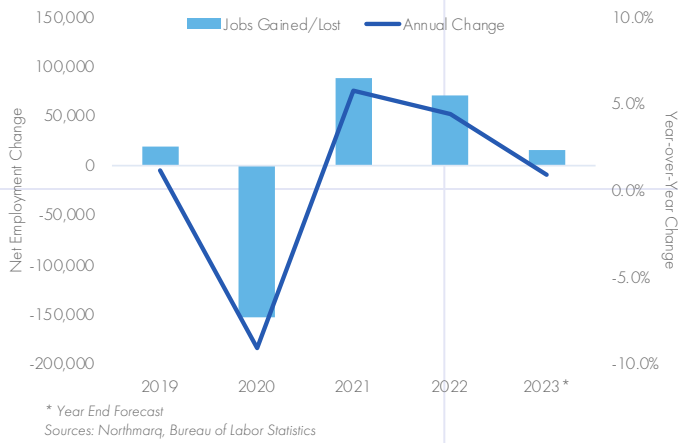
| PROPERTY NAME                | STREET ADDRESS                 | UNITS | SALES PRICE   | PRICE/UNIT |
|------------------------------|--------------------------------|-------|---------------|------------|
| Rize Irvine                  | 1100 Synergy, Irvine           | 363   | \$190,000,000 | \$523,416  |
| Fusion                       | 17321 Murphy Ave., Irvine      | 280   | \$155,000,000 | \$553,571  |
| Grove House                  | 501 E Katella Ave., Orange     | 90    | \$41,500,000  | \$461,111  |
| Bolsa West Apartments        | 10621 Bolsa Ave., Garden Grove | 60    | \$20,000,000  | \$333,333  |
| Village Courtyard Apartments | 8080 Bever Pl., Stanton        | 58    | \$19,025,000  | \$328,017  |

## LOOKING AHEAD

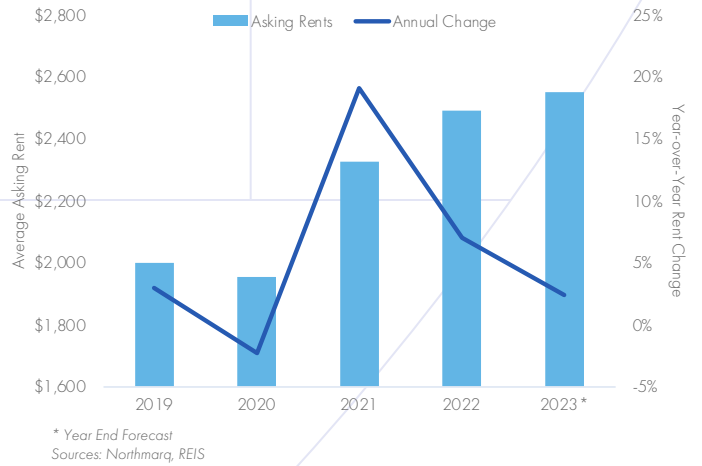
The Orange County multifamily market is expected to record modest improvements in 2023 as construction activity ramps up. Annual apartment completions are projected to reach a cyclical high in the next 12 months, and deliveries will outpace demand and push the vacancy rate slightly higher. Local vacancy currently sits below the long-term average, and even with the potential upticks in the coming quarters, the rate will remain closely in line with the historical trend in the mid-3 percent range. With high occupancy levels, operators should be able to inch rents higher, with annual rent growth in 2023 expected to be between 2 percent and 2.5 percent.

Multifamily investment activity should continue to cool in the coming months with just a handful of deals expected to trade during the first quarter of 2023. While overall property fundamentals remain healthy, the combination of economic concerns and rising borrowing costs will continue to limit sales activity. The local investment market is projected to pick up toward the latter part of 2023, as interest rates stabilize and pricing expectations for both buyers and sellers come closer to equilibrium. With roughly 3,000 units scheduled to come online in the next 12 months, investors in Orange County will closely monitor lease-up activity and rent increases across the market.

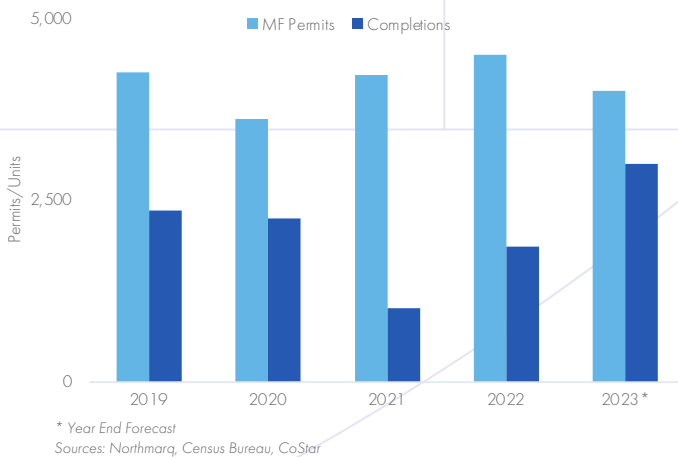
### EMPLOYMENT FORECAST



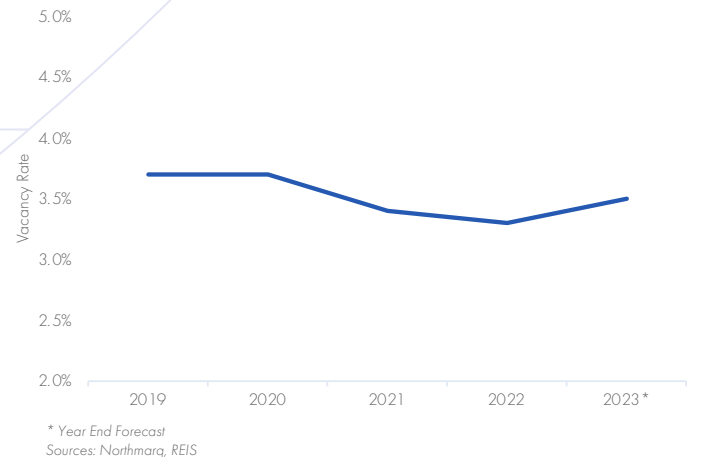
### RENT FORECAST



### CONSTRUCTION & PERMITTING FORECAST



### VACANCY FORECAST





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