Northmarq

MARKET INSIGHTS

Rents push higher, vacancy remains tight

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	5,502
UNITS DELIVERED	1,193

MARKET FUNDAMENTALS

VACANCY RATE	3.5%
YEAR-OVER-YEAR CHANGE	+40bps
ASKING RENTS	$2,495
YEAR-OVER-YEAR CHANGE	1.2%

TRANSACTION ACTIVITY (YTD)

MEDIAN SALES PRICE	$350,800

Orange County Multifamily
2Q 2023

HIGHLIGHTS

- An uptick in rents signaled continued demand for multifamily properties in Orange County during the second quarter. Multifamily developers should ramp up the pace of deliveries to keep pace in the second half of the year.
- Area vacancy ticked higher during the second quarter, rising 20 basis points to 3.5 percent. Year over year, the rate has increased by 40 basis points.
- Apartment rents pushed higher in recent months, rising 1.1 percent to $2,495 per month. Year over year, rents advanced by 1.2 percent.
- Multifamily sales activity in Orange County continued to slow, as the number of deals declined 50 percent from levels at the start of the year. Year to date, prices have inched lower, although per-unit pricing showed signs of resilience during the second quarter.

ORANGE COUNTY MULTIFAMILY MARKET OVERVIEW

Multifamily properties in Orange County continue to record steady performance, with renter demand growth and additions to inventory closely tracking one another. Rents resumed an upward trajectory during the second quarter, reversing course after a few periods of declines at the end of last year and the beginning of 2023. The current path of rising rents is likely to be sustainable, with vacancy levels tight and renter demand forecast to be supported by persistent gains in the local labor market. In recent quarters, growth in Orange County's largest white-collar industries has been below trend, but strong gains in education, healthcare, and leisure and hospitality have buoyed the overall labor market. When growth in the region's core sectors rebounds, it should support demand for apartments, particularly in Class A properties.

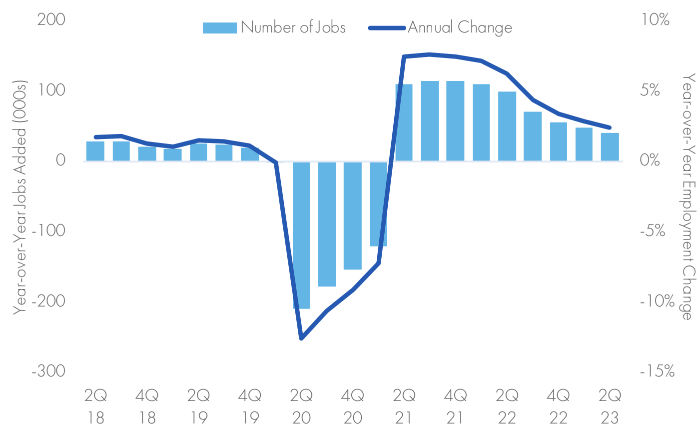
Higher capital costs continue to act as an impediment to multifamily investment activity in Orange County. The sales market was sluggish during the second quarter, dropping about 50 percent from levels recorded in the first three months of the year. The number of deals through the first half of 2023 fell nearly 60 percent from the first half of 2022. The decline in activity has been most pronounced in larger property sizes; transactions involving sales of more than 200 units are coming in well below levels from recent years. While year-to-date prices are lower than 2022 levels, prices began inching higher during the second quarter and elevated replacement costs present a built-in pricing floor. Cap rates have ranged between 3.75 percent on the low end, to approximately 4.75 percent, where the bulk of the deals are getting done.

EMPLOYMENT

- Employment growth in Orange County has remained steady during the past few quarters. Companies added 10,700 jobs in the last three months and year over year, total employment has expanded by 40,000 workers, a gain of 2.4 percent.
- The healthcare and social assistance sector has been posting rapid gains in recent periods. During the past 12 months, the industry expanded 4.5 percent and added 9,600 workers.
- UCI Health has a 1.2-million-square-foot medical complex under construction at the university's North Campus in Irvine. The new facility, which is slated to open in 2025, is expected to add 2,500 healthcare and construction jobs to the local economy.
- **FORECAST:** Employers are on pace to expand area payrolls by about 1.6 percent in 2023, adding 27,000 jobs. The region's white-collar employment sectors traditionally lead the way but have been slow to add workers to this point in the year.

Year over year, employment has expanded by 40,000 workers.

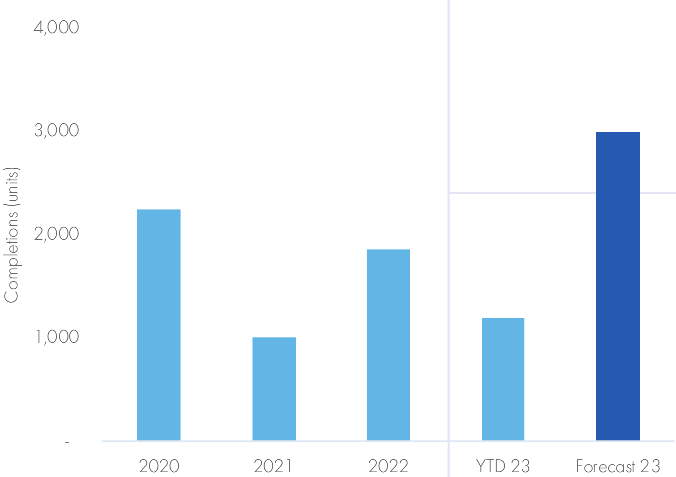
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Nearly 1,200 units have come online this year.

DEVELOPMENT TRENDS



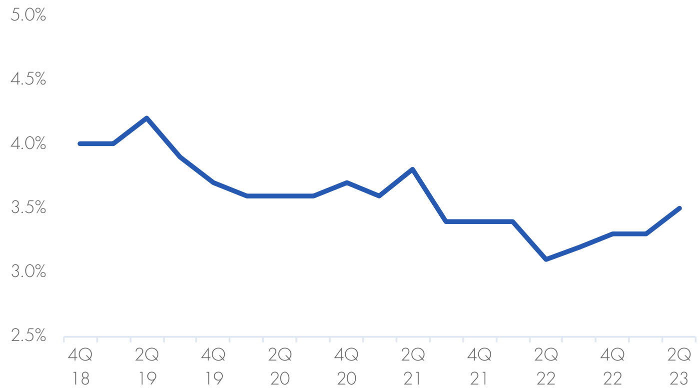
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Developers in Orange County completed multifamily projects during the second quarter totaling 590 units. Nearly 1,200 units have come online to this point in the year, closely tracking levels recorded in the first half of 2022.
- Projects totaling approximately 5,500 units are currently under construction throughout the region, up 40 percent from one year ago. The largest project scheduled to come online this year is located in the Irvine Business Complex; the Irvine submarket accounts for roughly half of the total units that are in the construction pipeline.
- Multifamily permitting accelerated in recent months as developers pulled permits for 1,070 units during the second quarter, up 35 percent from the first quarter. Permits for approximately 1,870 multifamily units have been issued year to date, a 15 percent decline from the first half of 2022.
- **FORECAST:** Projects totaling nearly 3,000 units are slated to come online in 2023, the largest annual delivery total since 2018. Last year, completions totaled approximately 1,850 units.

The vacancy rate rose 20 basis points to 3.5 percent.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

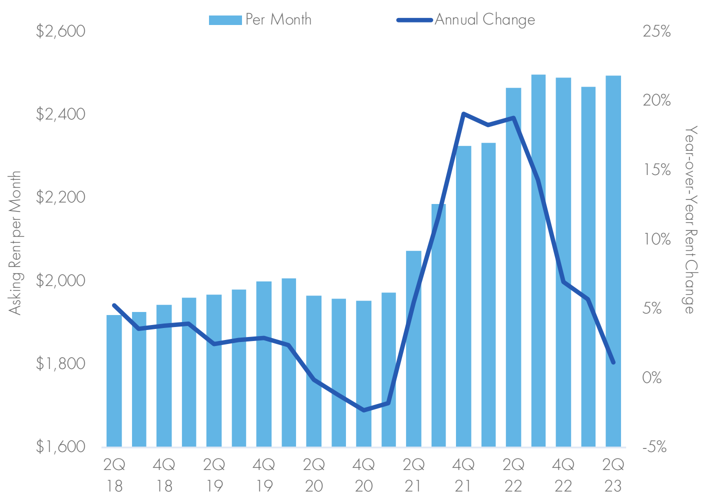
- The vacancy rate in Orange County ticked higher during the second quarter, rising 20 basis points to 3.5 percent. After falling to its lowest level since 2015 one year ago, vacancy has risen 40 basis points.
- The Buena Park submarket is recording some of the tightest vacancy conditions in Orange County, largely due to limited construction and below-average rents in this area. The submarket's vacancy rate dipped 10 basis points during the past year to just 1.7 percent.
- While overall vacancy rates are lower in Class B and Class C units, Class A properties are recording the strongest absorption. Local vacancy in top-tier properties dipped 10 basis points during the past 12 months to 4.7 percent.
- **FORECAST:** The vacancy rate is expected to inch higher in the second half of the year as new supply is on track to slightly outpace renter demand. Vacancy in Orange County is forecast to finish 2023 at around 3.6 percent, up 30 basis points for the year.

RENTS

- Asking rents in Orange County pushed higher in recent months after trending lower for two consecutive quarters. Local rents rose 1.1 percent during the second quarter to $2,495 per month.
- Recent rent increases have offset modest declines recorded in the second half of last year and in the first few months of 2023. Area asking rents have increased by 1.2 percent during the past 12 months.
- While rents inched higher in many of Orange County's submarkets during the past year, the largest increases occurred in North Anaheim. Average rents in this submarket rose 3.9 percent from one year ago to $2,046 per month. Rents in the submarket has pushed higher in each of the past eight quarters.
- **FORECAST:** Asking rents should continue to trend higher for the remainder of the year. Apartment rents in Orange County are expected to reach roughly $2,550 per month by the end of 2023, an annual gain of nearly 2.5 percent.

Local rents rose 1.1 percent during the second quarter.

RENT TRENDS



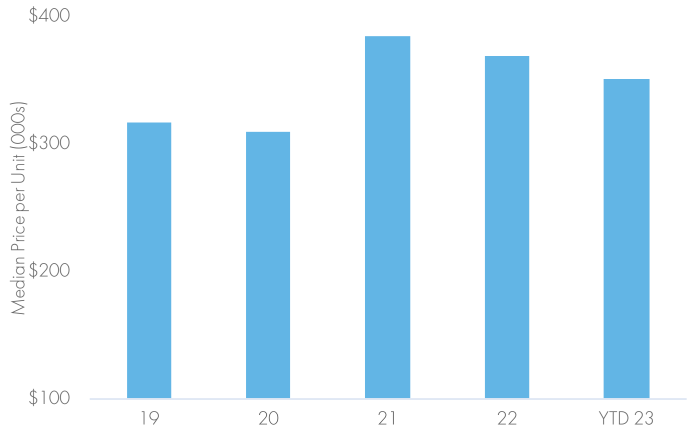
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Multifamily transaction activity in Orange County continued to slow in recent months as deal volume fell 50 percent from the first quarter to the second quarter. In addition, the number of sales in the first half of 2023 dropped nearly 45 percent compared to the second half of last year.
- Several of the properties that have changed hands to this point in 2023 feature smaller unit counts. Nearly all the activity this year has been in properties with fewer than 100 units, while in past years, transaction sizes averaged about 200 units.
- The median sales price year to date is $350,800 per unit, down 5 percent from the median price in 2022. During the second quarter, the median price was $377,900 per unit, about 12 percent higher than levels recorded in the first few months of the year.
- Cap rates have pushed higher during the past year but remain low when compared to other markets and are similar to some Treasury bond yields. Most properties are selling with cap rates between 3.75 percent to 4.75 percent.

The median sales price year to date is $350,800 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

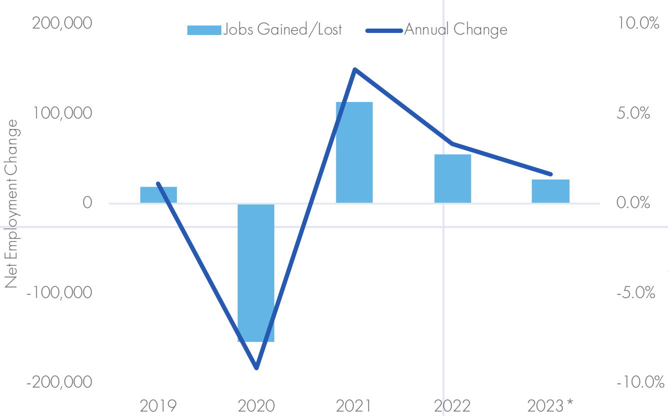
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Newport Palms	1850 Whittier Ave., Costa Mesa	138	$61,000,000	$442,029
Birch Terrace Apartments	601/613/617 E Birch St., Brea	36	$13,605,000	$377,917
El Paseo Apartments	3340 Orange Ave., Anaheim	29	$8,850,000	$305,172

LOOKING AHEAD

The coming quarters are forecast to be active ones for new development in Orange County. Developers have large projects scheduled to deliver in the second half of this year and in the first half of 2024 that will provide new rental inventory in a traditionally supply-constrained region. Some of the largest projects slated to deliver in the coming quarters are located in dense employment corridors including properties in Irvine and neighboring Santa Ana. With new supply coming online in areas where renter demand is strongest, the impact on area vacancy rates should be minimal. Local apartment rents should continue to trend higher for the remainder of the year although the pace of near-term gains will likely trail the historical growth rate in the region of about 4 percent.

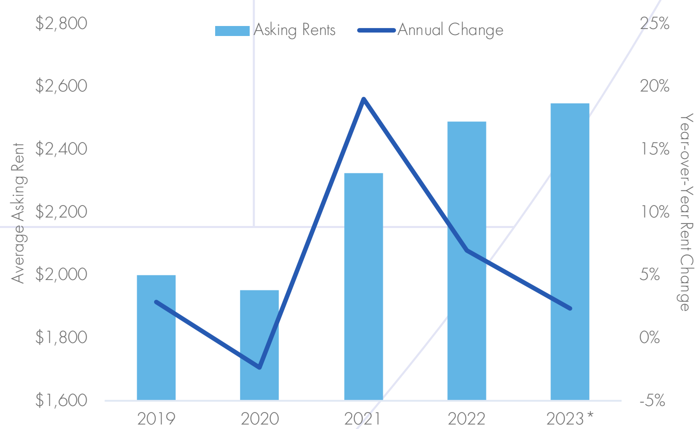
While property fundamentals in Orange County remain on solid footing, the local investment market has slowed considerably in recent months. Multifamily sales activity will likely pick up slightly by the fourth quarter, although overall transaction totals for the full year are forecast to be fairly limited. With interest rates forecast to remain stubbornly elevated, cap rates may edge a bit higher, although it is unlikely that cap rates in Orange County will top 5 percent on average. One factor that brightened the outlook during the second quarter and could support an increase in the number of investment transactions in the second half was the resumption of rent increases across in the region. If investors and lenders are increasingly comfortable underwriting acquisitions with predictable rent growth, there could be an uptick in property sales.

EMPLOYMENT FORECAST



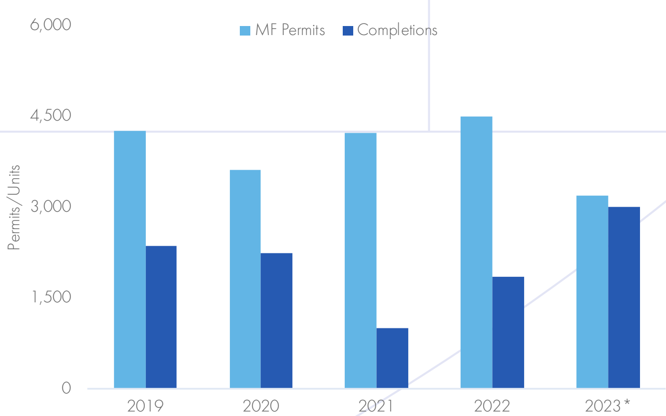
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



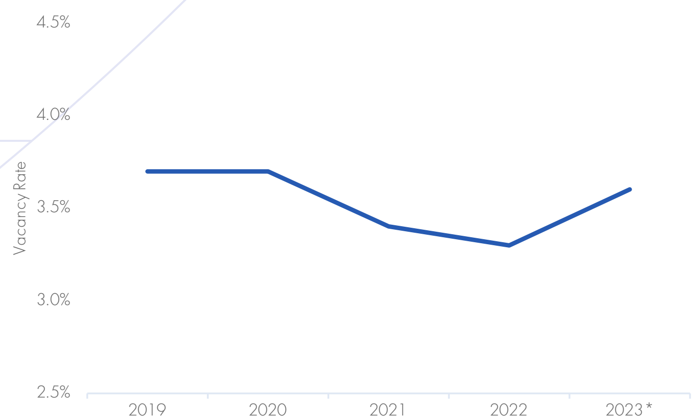
** Year End Forecast*
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



** Year End Forecast*
Sources: Northmarq, REIS

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