Northmarq

MARKET INSIGHTS

Vacancy remains tight, even with construction on the rise

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	5,836
UNITS DELIVERED	603

MARKET FUNDAMENTALS

VACANCY RATE	3.3%
YEAR-OVER-YEAR CHANGE	-10bps
ASKING RENTS	$2,468
YEAR-OVER-YEAR CHANGE	+5.7%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$333,300

Orange County Multifamily
1Q 2023

HIGHLIGHTS

- The Orange County multifamily market remains healthy but showed some signs of cooling during the first quarter. Asking rents inched lower for the second straight period while the vacancy rate held steady.
- Vacancy was stable during the first quarter, maintaining a 3.3 percent rate. Year over year, local vacancy improved by 10 basis points.
- Asking rents ended first quarter at $2,468 per month; year over year, local rents are up 5.7 percent.
- Multifamily sales activity in Orange County continued to slow during the first quarter, as the number of deals declined 25 percent from the previous period. The median sales price thus far in 2023 is $333,300 per unit, while cap rates are generally between 3.5 percent and 4.5 percent.

ORANGE COUNTY MULTIFAMILY MARKET OVERVIEW

The Orange County multifamily market continued on its traditionally steady path in the first quarter. Local vacancy was stable in the early months of 2023, maintaining one of the lowest rates in the nation at just 3.3 percent. While many markets are experiencing steep, upward moves in vacancy, the rate in Orange County remains in a tight range. Despite a tight vacancy rate, a sluggish pace of new renter demand in recent periods resulted in modest rent declines. Asking rents dipped for the second straight quarter, after posting rapid gains for much of the past two years. Multifamily developers remain active throughout Orange County, with projects totaling more than 5,800 units currently under construction, although several of these projects will be delivered in 2024 or later.

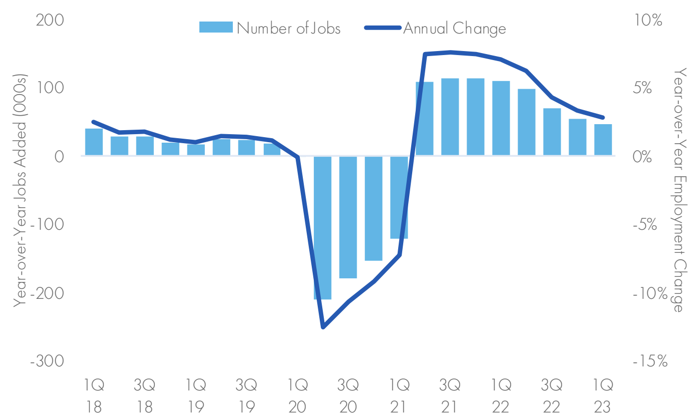
Transaction activity in Orange County's investment market slowed during the first quarter, as heightened interest rates and stricter lending conditions have curbed investment feasibility. As fewer properties changed hands in recent months, pricing ticked lower. The median sales price to this point in 2023 is $333,300 per unit, down nearly 10 percent from the median price last year. Sales activity in the first quarter was heavily concentrated in the northern portion of Orange County, including deals in Brea, Anaheim and La Habra. Cap rates have inched higher but remain quite low with many owners unwilling to concede much ground to would-be buyers. Most properties that have sold in recent quarters have traded with cap rates ranging from 3.5 percent to 4.5 percent.

EMPLOYMENT

- Area employers continued to add workers to payrolls in the first quarter, although the pace of job growth tapered off from recent periods. Total employment in Orange County expanded by 5,200 positions in the first three months of 2023. Year over year, the local labor market advanced by 2.8 percent with the addition of 46,200 jobs.
- The leisure and hospitality industry continues to expand in Orange County. Year over year, this sector added 14,500 jobs and grew by 6.8 percent. Total employment in leisure and hospitality still trails its mid-2019 peak by roughly 3 percent, with additional recovery anticipated in the coming quarters.
- The Platinum Triangle area is on track for a massive new master-planned campus; the 95-acre ocV!BE entertainment district is scheduled to break ground in Anaheim later this year. The development surrounding the Honda Center is expected to generate more than 3,000 permanent jobs upon completion. The first phase of the development is expected to be completed in 2026.
- **FORECAST:** Employers are forecast to add approximately 15,000 jobs in Orange County this year, a 0.9 percent increase to area payrolls.

Year over year, the local labor market advanced by 2.8 percent

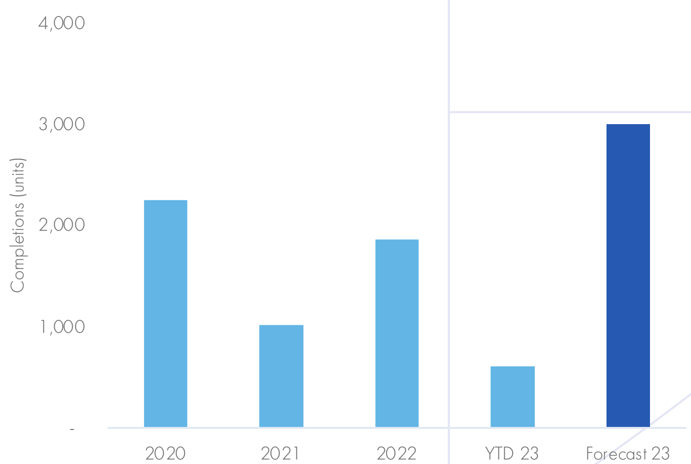
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling nearly 3,000 units are slated to come online in 2023.

DEVELOPMENT TRENDS



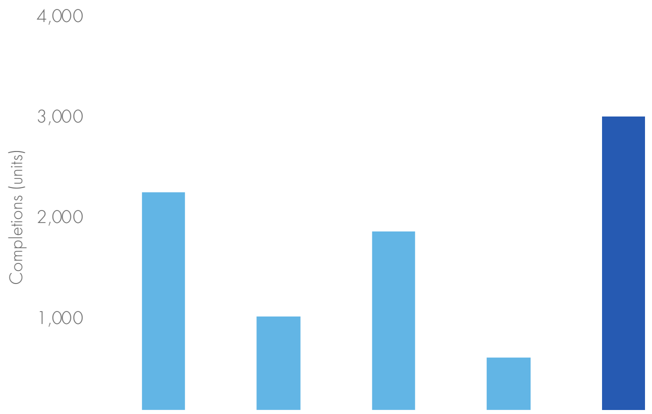
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- The pace of apartment deliveries slowed slightly in recent months as developers completed one major project during the first quarter. The 603-unit Park on First was delivered early this year and is located in Santa Ana's Prentice Park within the Lyon Street submarket.
- Projects totaling nearly 5,840 units are currently under construction throughout Orange County, a 38 percent increase from one year ago. With construction timelines extended, current projects will be delivered over the next few years.
- Multifamily permitting continued to taper off in recent months, as developers pulled permits for approximately 760 units during the first quarter, down 18 percent from the previous period. Multifamily permitting is forecast to decline by nearly 40 percent in 2023.
- **FORECAST:** Projects totaling nearly 3,000 units are slated to come online in 2023, after fewer than 1,900 units were delivered last year. Anticipated delivery levels this year are more consistent with annual levels from 2015 to 2019.

The vacancy rate ended the first quarter at 3.3 percent.

VACANCY TRENDS



VACANCY

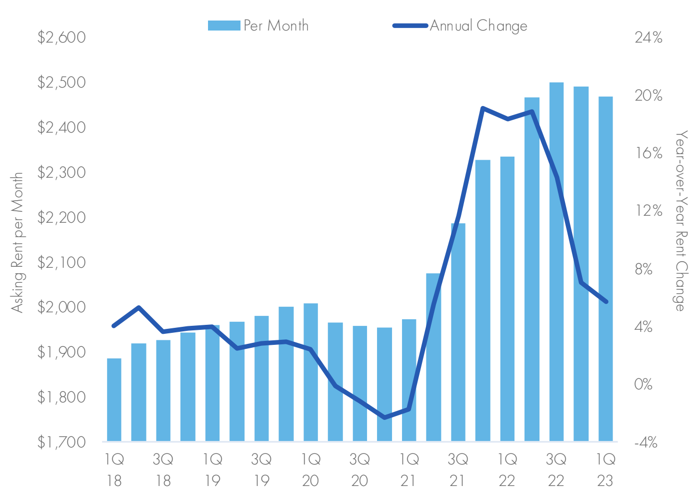
- Vacancy in Orange County has been steady in recent periods and has remained in a tight range. The rate ended the first quarter at 3.3 percent, matching the year-end 2022 level. During the past 12 months, vacancy has inched lower by 10 basis points. The current rate is slightly below the market's trailing five-year average of 3.6 percent.
- The Irvine submarket has recorded the most significant vacancy improvement in recent quarters. The submarket's vacancy rate fell by 70 basis points during the last 12 months to 4.4 percent. As more employers implement return-to-work programs, renter demand for apartments in this employment corridor will likely strengthen.
- While vacancy in the lower tiers has remained consistently tight for the past several years, the greatest improvements have been recorded in Orange County's Class A units. Year over year, the Class A vacancy rate fell 60 basis points to 4.4 percent. Since 2015, Class A vacancy has averaged 4.7 percent.
- **FORECAST:** As construction activity ramps up, vacancy is projected to tick higher through the remainder of this year. The vacancy rate is forecast to rise 20 basis points in 2023, reaching 3.5 percent.

RENTS

- Rents in Orange County dipped lower for the second straight quarter, following healthy gains during much of 2021 and 2022. Asking rents fell 0.9 percent—or $22 per month—during the first quarter to $2,468 per month.
- Despite declines during the past six months, earlier rent hikes have helped maintain a strong annual growth rate. Current asking rents are up 5.7 percent from the same period last year.
- While every submarket posted year-over-year rent increases, the greatest gains occurred in Westminster/Fountain Valley. Asking rents in this submarket rose 8.2 percent during the past 12 months to nearly $2,030 per month.
- **FORECAST:** Average rents in Orange County are expected to begin trending higher in the coming months. Apartment rents are forecast to rise 1.5 percent in 2023, finishing the year at around $2,525 per month.

Asking rents are up 5.7 percent from last year.

RENT TRENDS



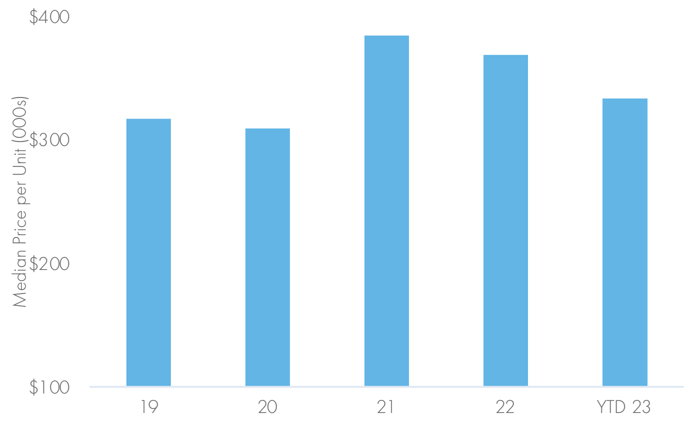
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Multifamily sales activity in Orange County continued to slow at the start of 2023. Deal volume during the first quarter declined 25 percent from the previous period and is down 50 percent when compared to the first quarter of last year.
- Sales prices have also trended lower in recent months after peaking in the past two years. The median sales price to this point in 2023 is $333,300 per unit, down nearly 10 percent from the median price in 2022.
- Despite prices dipping modestly, cap rates remained low. The bulk of the transactions that closed during the first quarter traded with cap rates ranging between 3.5 percent and 4.5 percent.

The median sales price is $333,300 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

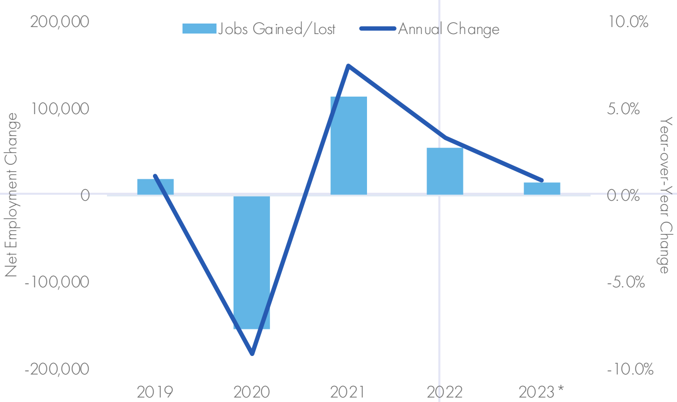
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
La Casa Brea Apartments	755 E Date St., Brea	74	$27,250,000	$368,243
Anaheim Apartments	870-899 S Philadelphia St., Anaheim	64	$16,960,000	$265,000
Kwan Yin Apartments	7932 Lampson Ave., Garden Grove	44	$16,785,000	$381,477
Hillside	921 N Hillside St., La Habra	38	$9,818,000	$258,368

LOOKING AHEAD

Apartment operating conditions in Orange County are expected to remain fairly consistent throughout much of the rest of this year. The pace of construction is likely to accelerate, but this follows a four-year period of limited new development; since 2019, only about 8,000 rental units have been delivered in a region with a population totaling more than 3 million. Multifamily vacancy is forecast to inch higher, but despite a likely increase, conditions will remain tight enough to support modest rent gains. New construction is expected to be concentrated in higher-growth areas such as Santa Ana and Irvine.

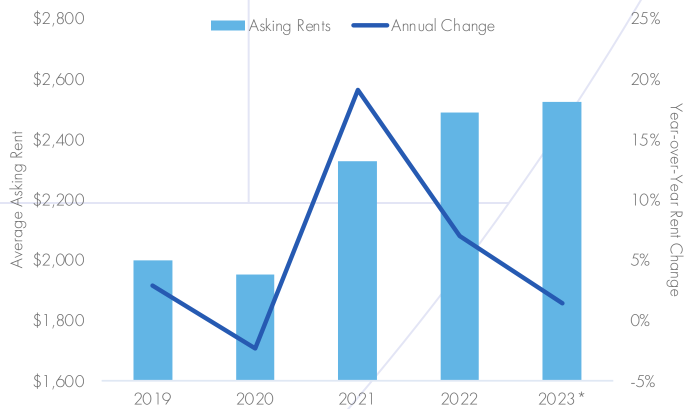
Multifamily investors are expected to remain attracted to Orange County for its strong renter demand and steady rent growth. While absorption levels and apartment rents have retreated in recent periods, overall investor sentiment remains positive in this region. The pace of deals should pick up by the end of the year as buyers' and sellers' pricing expectations continue to become more closely aligned. Cap rates in the market are generally quite low but have begun to trend higher. Significant increases are unlikely, as the large number of long-term owners in the area will limit distress and forced sales or recapitalizations.

EMPLOYMENT FORECAST



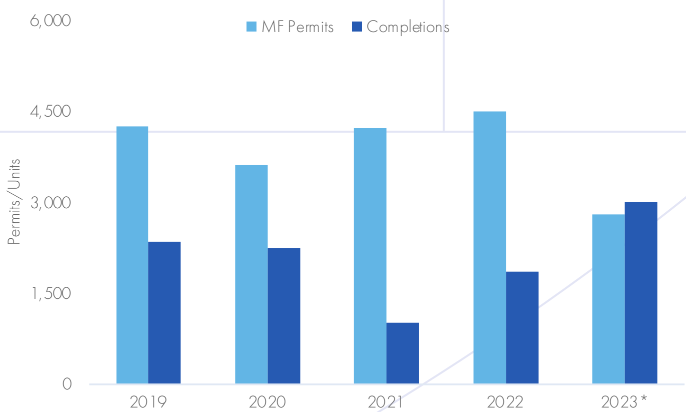
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



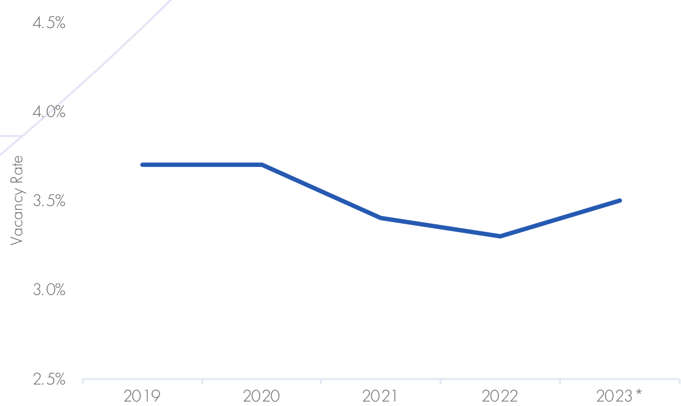
* Year End Forecast
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, REIS

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FOR MORE INFORMATION, PLEASE CONTACT:

SHANE SHAFER
Managing Director–Investment Sales
949.270.3690
sshafer@northmarq.com

PETER HAUSER
Senior Vice President–Investment Sales
949.717.5211
phauser@northmarq.com

MATT HAUSER
Senior Associate–Investment Sales
949.270.3693
mhauser@northmarq.com

DAVID BLUM
Managing Director–Debt & Equity
949.717.5215
dblum@northmarq.com

JOE GIORDANI
Managing Director–Debt & Equity
949.717.5208
jgiordani@northmarq.com

PETE O'NEIL
Director of Research
602.508.2212
poneil@northmarq.com

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