

INVESTMENT FORECAST

Multifamily
Orange County

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2022


Record Demand Establishes Orange County as Nation's Tightest Market


Homeownership hurdles, high-paying jobs support historic conditions.

Renter demand for high-end and mid-tier apartments surged in Orange County over the past year, reducing vacancy in both the Class A and B sectors below 2 percent. Job creation by professional and business services firms supported the rise in absorption, with the employment segment responsible for roughly 20 percent of the total jobs added last year. While wages in this sector are typically above the market average, most professionals are unable to afford the metro's median home price, which now exceeds \$1 million. With limited housing options available, these individuals will continue to filter into the renter pool in 2022, coinciding with the delivery of large-scale projects in Santa Ana, Costa Mesa and Irvine. Current fundamentals indicate these units will be well received, allowing Class A vacancy to rank among the nation's lowest. A lack of available luxury units may force some prospective renters to lease Class B apartments, further compressing conditions in the subsector.

Competition for luxury apartments establishes new price benchmarks.

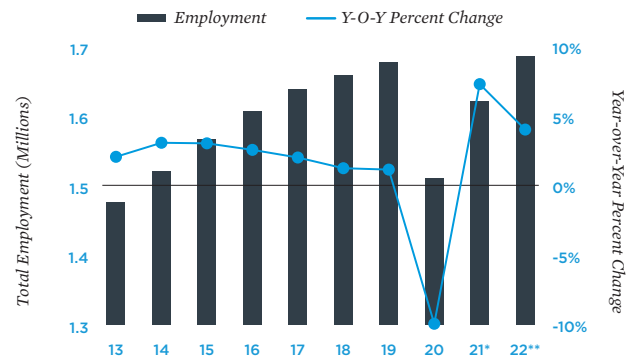
Record low Class A vacancy in Orange County is fueling demand among institutions for recently built assets that warrant significant capital commitments. With more than 30,000 rentals added to inventory over the past 10 years, opportunities to acquire these properties are emerging in Anaheim and other cities undergoing inventory expansion. Rent growth projections for newly built, larger complexes have buyers willing to deploy \$450,000 to more than \$500,000 per unit, while also accepting cap rates in the 3 percent range. Larger regional owners priced out of the luxury sector are targeting Class C assets with upward of 80 units. Depending on location, pre-1980s vintage complexes are requiring investments of \$250,000 to \$400,000 per unit as vacancy in the property tier is around 1 percent. Santa Ana has historically been an epicenter for Class C deal flow; however, the enactment of rent control late last year, which applies to units built prior to 1995, is poised to impact local deal flow moving forward.

20.9%  2021 share of local population between 20 and 34 years old

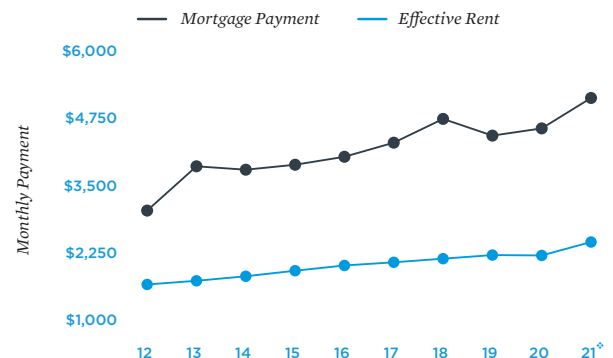
36.9%  of local population hold bachelor's degree or higher*

\$1,062,200  2021 median home price

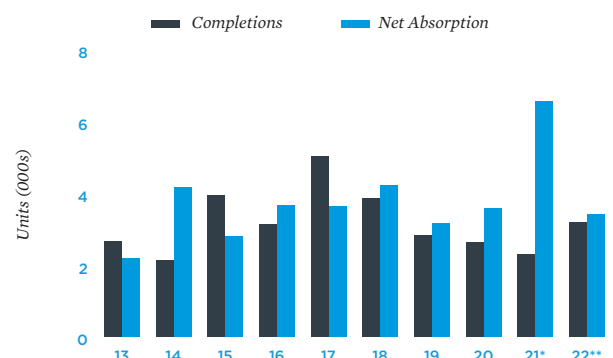
Employment Trends



Housing Affordability Gap



Supply and Demand



* Estimate ** Forecast * Through 3Q

**2021: 25+ years old

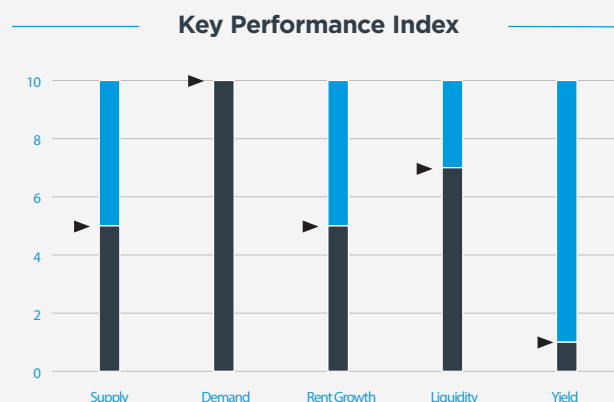
Sources: Marcus & Millichap Research Services; BLS; Freddie Mac; National Association of Realtors; RealPage, Inc.

2022 Investment Outlook

Orange County is in a great position in 2022, grabbing the highest score possible on the demand segment of the Key Performance Index while supply concerns are minimal. Very tight vacancy amid strong demand supports rent growth this year.

Liquidity is up considerably on the Index when comparing Orange County's score of 7 to the recording prior to the health crisis. Transaction velocity is strong in the nation's tightest rental market, creating a competitive bidding market and pushing down on yields.

Note: The Key Performance Index provides a metro-level relational benchmark scaled from 1-10 for five key metrics.



2022 Market Forecast

Employment

65,000 jobs



Metro **4.0%**
U.S. **2.5%**

Construction

as % of inventory*



Metro **1.2%**
U.S. **2.2%**

Class A Vacancy

Down 20 bps



Metro **1.7%**
U.S. **3.6%**

Class A Rent

\$2,838
per month



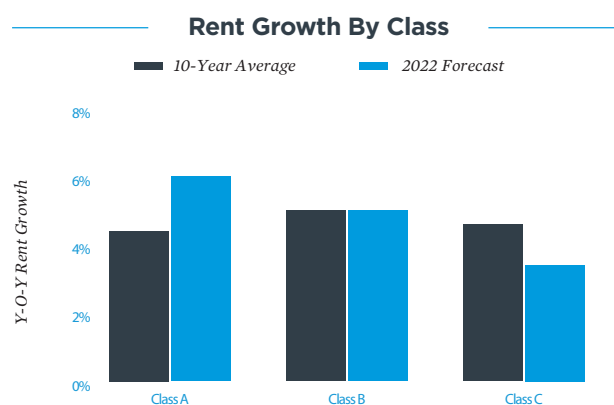
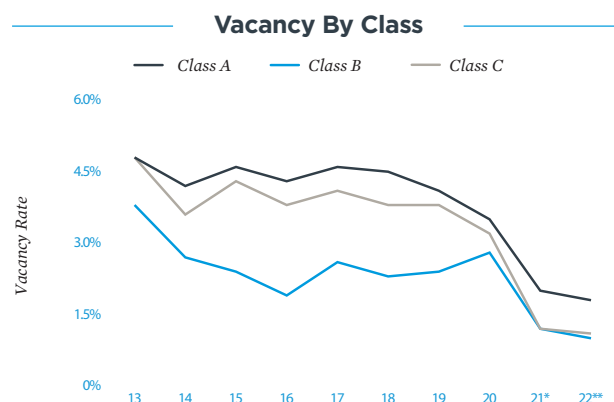
Metro **6.0%**
U.S. **7.5%**

Investment

3-yr. avg. activity
\$20+ million



Deals: **14**
Volume: **\$910 Million**



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* Estimate ** Forecast
* Arrow reflects completions trend compared with 2021
Sources: Marcus & Millichap Research Services;
CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics