MARKET REPORT

Multifamily

Orange County Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

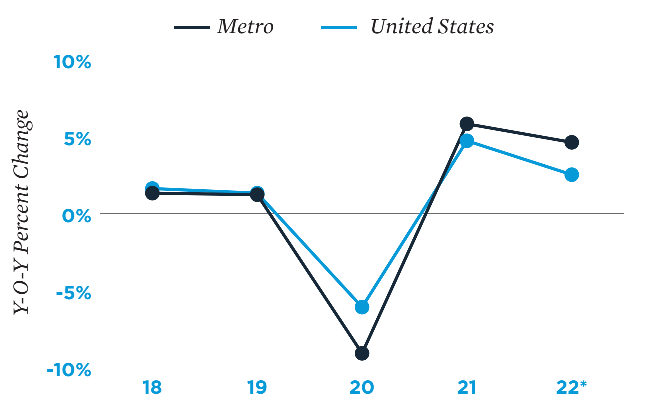
2Q/22

Out-of-Reach Home Prices Support One of the Nation's Tightest Vacancy Rates

Divergent locales exhibit similar conditions. Orange County enters April after a 12-month period where renters absorbed more than 7,500 units. Demand was noteworthy across submarkets at the opposite ends of the price spectrum. In West Anaheim, Buena Park-Cypress and Garden Grove-Westminster, areas where average rent is at least $500 per month below the metro mean, vacancy fell under 1 percent. On the other end of the scale, unit availability dropped below 2 percent in Newport Beach and South and North Irvine, despite average rents that range from $2,900 to more than $3,200 per month. Home to large swaths of tech, law and other professional services firms, these submarkets will remain tight as high-paying job creation and employees' return to offices fuel rental demand. At the same time, vacancy in the trio of lower cost submarkets should adjust minimally as service-related hiring preserves demand for regionally affordable rentals.

Conditions among luxury properties warrant new additions. Class A vacancy was historically low at the onset of April, despite the average rent rising 21 percent last year to $2,930 per month. A widening affordability gap is partially to credit. During 2021, this disparity — the difference between an average monthly rental rate and a mortgage payment on a median priced home — extended to roughly $2,950, the largest separation in 15 years. This gap and an increase in household incomes are poised to fuel demand for the new units slated for near-term completion.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

75,000 JOBS
will be created

EMPLOYMENT:

The metro's job count surpasses the pre-pandemic peak this year, aided by an increase in hiring by traditional office-using employers. The 4.6 percent rate of employment growth recorded in 2022 exceeds the national pace of increase by more than 2.0 percent.

2,800 UNITS
will be completed

CONSTRUCTION:

Developers complete more than 2,000 units for an 11th straight year, increasing inventory by 1.1 percent. Project deliveries will be minimal south of Santa Ana, as upcoming supply additions are concentrated in the metro's largest cities.

10 BASIS POINT
increase in vacancy

VACANCY:

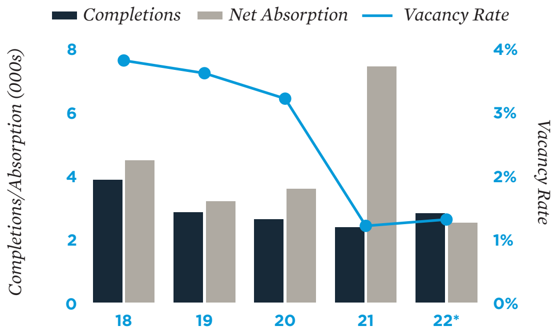
Steady demand for lower cost apartments and luxury units this year supports the absorption of 2,500 rentals. This enables vacancy to remain extremely sparse at 1.3 percent. The slight rise noted during 2022 follows last year's 200-basis-point decline.

8.6% INCREASE
in effective rent

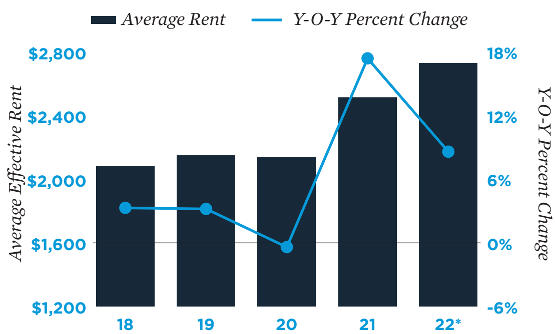
RENT:

A second straight year of extremely tight conditions provides owners the impetus to push rents at a strong pace, elevating the average effective rate to $2,730 per month. Class A rent is likely to rise at a pronounced rate amid historically low luxury vacancy.

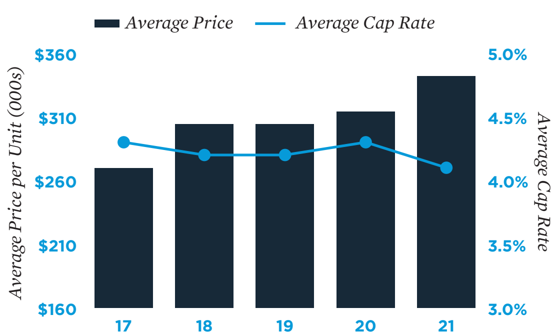
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

1Q 2022 - 12-Month Period

CONSTRUCTION

2,732 units completed

- Supply additions over the past 12 months ending in March grew rental inventory by 1.0 percent — an increase in deliveries, following the completion of 1,980 units during the prior yearlong period.
- Highlighted by the 876-unit Volar in Irvine, construction is underway on at least 5,000 units throughout Orange County.

VACANCY

190 basis point decrease in vacancy Y-O-Y

- Strong renter demand across submarkets during the past four quarters lowered metrowide vacancy to 1.3 percent in March.
- Vacancy in Santa Ana compressed 310 basis points over the past year to 1.2 percent, while seven additional submarkets registered declines of at least 160 basis points.

RENT

19.0% increase in the average effective rent Y-O-Y

- The metro's average effective rent grew by $410 over the past year, reaching $2,590 per month at the end of the first quarter.
- Rent growth exceeded the 20 percent mark in six submarkets, with South Orange County and West Irvine noting the largest gains of 24.9 percent and 23.6 percent, respectively.

Investment Highlights

- Extremely tight apartment vacancy fueled regional buyer demand for listings during 2021, with many investors acquiring properties as part of 1031 Exchanges. This activity supported a nearly 50 percent rise in annual deal flow, while a competitive bidding environment lifted the average price point 9 percent to $342,000 per unit. Still, the average cap rate held in the low-4 percent range for a fifth consecutive year.
- Robust renter demand for Class C apartments has investors scouring Orange County for smaller, 1950s- to 1970s-built complexes. Buyers seeking sub-30-unit properties at pricing below the metro average are finding the most opportunities in Anaheim, Fullerton and Garden Grove, with a high percentage of these assets trading at high-3 to high-4 percent cap rates. Investors seeking similar rentals near the coast are pursuing listings in Huntington Beach and Costa Mesa, where sub-$400,000 per door pricing and returns above 4 percent are rare.
- A rent control ordinance that limits annual rate increases to 3 percent took effect in Santa Ana during late November of last year. This regulation has the potential to alter investment activity in the submarket and bolster the appeal of apartments in other lower cost locales.

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