MARKET REPORT

Multifamily

Orange County Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

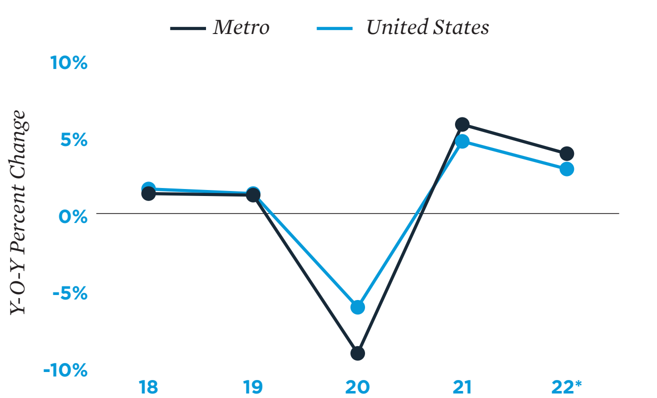
3Q/22

Affordability Gap Places Most Residents in the Renter Pool, Despite High-Paying Jobs

Apartments provide relief from home prices. Orange County's multifamily sector is in a position of strength. Entering the second half of 2022, the area had the second-lowest Class B availability among major U.S. rental markets and was tied for the lowest Class A rate. A sizable proportion of professional services, retail and hospitality positions is to credit, as are single-family home prices, which are out of reach for most households. During the first six months of 2022 alone, the gap between the monthly mortgage payment on a median priced home and average effective rent widened by more than $2,000 to $5,220 per month. Difficulties surrounding homeownership suggest the metro will remain one of the country's tightest rental markets over the near term.

Strong rental demand exists in local office hub. The number of traditional office-using positions in Orange County grew by 10,000 over the yearlong period ended in June. Many of these higher-paying jobs are in Irvine, where vacancy is at or below 1.8 percent in each of the three submarkets that comprise the city. Over the past four quarters, renters absorbed 1,570 units across this trio of locales, despite effective rents that on average exceed $3,000 per month. This correlation suggests that employees are returning to offices, at least part time. As such, the office-using job count is expected to soon match the pre-pandemic high, which, when paired with a dearth of near-term supply additions, points to the preservation of tight conditions.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook

63,500 JOBS
will be created

EMPLOYMENT:

One-third of the 36,600 positions added during the first half of 2022 were leisure and hospitality related. The ongoing recovery of this sector and hiring by traditional office-using firms will support a 3.9 percent annual rate of employment growth.

3,000 UNITS
will be completed

CONSTRUCTION:

Delivery volume reaches a four-year high during 2022 as developers increase inventory by 1.1 percent. Still, second half completions are relatively sparse in the metro's largest cities, a list that includes Anaheim, Newport Beach and Irvine.

140 BASIS POINT
increase in vacancy

VACANCY:

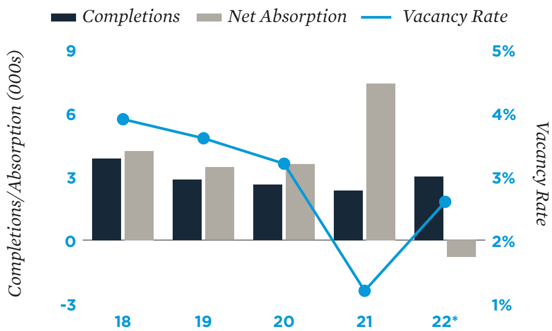
Availability rises for the first time since 2017, as supply additions outpace demand. Nevertheless, Orange County's year-end vacancy rate of 2.6 percent is 60 basis points below its prior five-year average.

8.6% INCREASE
in effective rent

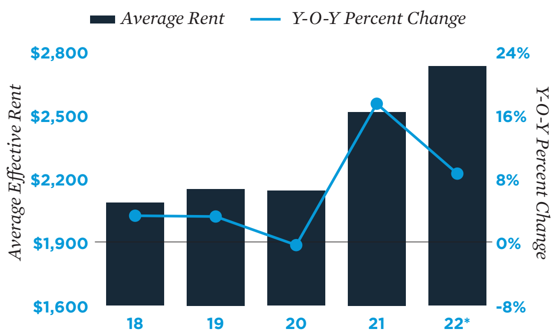
RENT:

The pace of rent growth exceeds the prior 10-year average of 5.1 percent, elevating the metro's mean effective rate to $2,730 per month. This figure is on par with year-end rent projections for San Diego and Los Angeles counties.

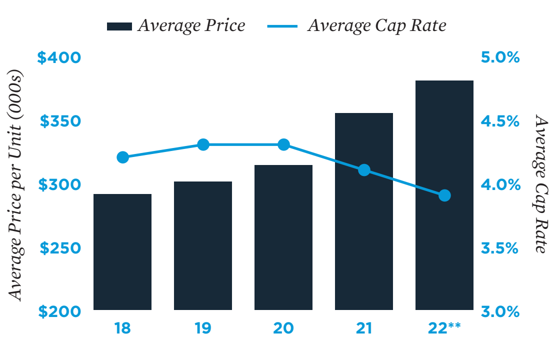
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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2Q 2022 - 12-Month Period

CONSTRUCTION

2,988 units completed

- Highlighted by the delivery of more than 800 rentals in both East Anaheim-Orange and North Irvine, developers grew metro inventory by 1.1 percent during the 12-month span ended in June.
- Ongoing projects in Irvine and Santa Ana accounted for approximately 55 percent of the metro's active pipeline as of July.

VACANCY

60 basis point decrease in vacancy Y-O-Y

- Renters absorbed 4,520 units during the last four quarters, lowering availability to 1.8 percent. All 16 submarkets are home to sub-3 percent vacancy.
- Class A and B availability stood at 2.4 percent and 1.7 percent, respectively, at the onset of the second half. The rate in the luxury segment fell 50 basis points year-over-year, while mid-tier logged a 40-basis-point drop.

RENT

19.1% increase in the average effective rent Y-O-Y

- During the recent 12-month interval, seven submarkets noted effective rent growth that exceeded 20 percent. These gains pushed the metro's average rate up to $2,667 per month.
- Both Class A and B rents rose by more than 19 percent, reaching $2,993 and $2,524 per month, respectively, in the second quarter of 2022.

Investment Highlights

- Deal flow fell by 12 percent during the 12-month stretch ended in June, as rising interest rates and more stringent underwriting impacted sales activity during the first half of 2022. Nevertheless, transaction velocity in the $20 million-plus tranche rose over the last four quarters, supported by trades involving properties with triple-digit unit counts. These sales were concentrated in Anaheim, Fullerton and Huntington Beach.
- The metro's average price point climbed 14 percent to $380,000 per unit over the past year, as property values rose across all classes and price tranches. Additionally, Orange County's average cap rate was 3.9 percent over the past 12 months, the third lowest among major U.S. rental markets.
- High-paying job creation bolsters demand for luxury rentals in Greater Irvine. Class A vacancy rates in the three submarkets that comprise the city range from a low of 1.5 percent in North Irvine to 2.2 percent in South Irvine. Tight conditions across the area will boost institutional interest.
- Class B rent growth surpassed 25 percent during the yearlong span ended in June in the Mission Viejo-Lake Forest submarket. The robust pace of rate increases is likely to prompt greater institutional investment here.