INVESTMENT FORECAST

Multifamily

Orange County

IPA INSTITUTIONAL PROPERTY ADVISORS

2024

Metro Stands Out in California as Santa Ana Rent Control Hinges on Voters

Broad demand supports widespread rent growth. Orange County has held the title of California's tightest major rental market for the past three years. The metro will retain this accolade during 2024, as significant homeownership barriers and record numbers of traditional office-using, retail trade and food service positions facilitate strong demand across property tiers. In the Class A sector, developers are responding to a vacancy rate more than 100 basis points below its long-term mean of 4.7 percent by delivering upward of 3,000 units for the first time in six years. Completions, however, are centered in the Irvine Business Complex neighborhood, which appears warranted considering the city's low-2 percent vacancy at the onset of 2024. The relatively moderate volume of rentals added across the rest of the metro bodes well for Class A demand in areas like Anaheim and Costa Mesa. Concurrently, record-high Class A rent will require many households to occupy Class B and C units, maintaining some of the nation's tightest conditions in both segments.

Decision on local rent control may shift some investors' attention. Investor competition for older and relatively newer mid-tier and luxury properties should be fierce in 2024 as the metro was the only major U.S. market to enter this year with Class A and B vacancy rates each below 4 percent. Of late, opportunities to acquire midsize and larger properties of this quality have been relatively sparse, with these assets requiring commitments of $440,000 to $520,000 per unit depending on location and vintage. The recent lack of coastal listings that fit this criteria is likely to steer more active investors inland to lower-cost submarkets. Santa Ana, which accounted for roughly 20 percent of metrowide deal flow last year, would typically be included in this group. This year, however, some investors may pursue listings in the city with more caution. An initiative on this November's ballot is asking voters to affirm or reject the city's rent control law, which placed a 3 percent limit on annual increases for units built prior to February 1995. Buyers may instead turn to Anaheim, Garden Grove and Orange proper, nearby cities that offer buyers similar price points, or target assets constructed after this threshold, potentially lifting deal flow in the Class A and B sectors.

20.6%

2023 share of local population between 20 and 34 years old

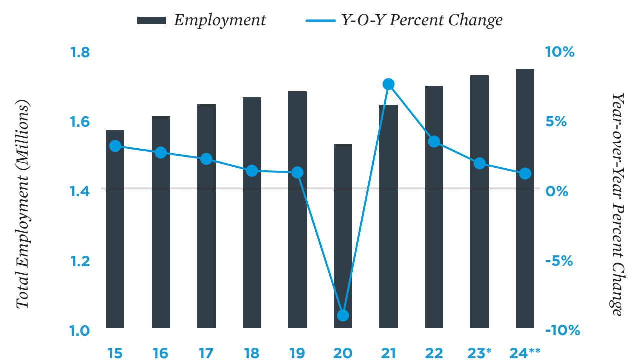
38.2%

of local population hold bachelor's degree or higher ⌘

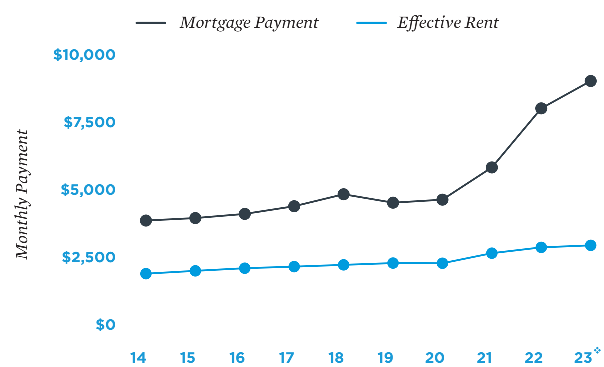
$1,265,700

2023 median home price ✣

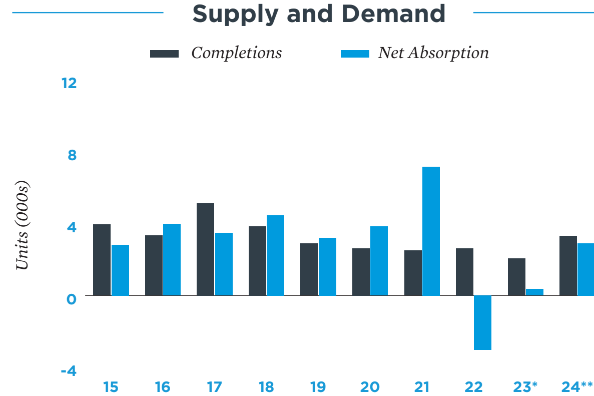
Employment Trends



Housing Affordability Gap



Supply and Demand



** Estimate ** Forecast ✣ Through 3Q*

⌘2023: 25+ years old

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

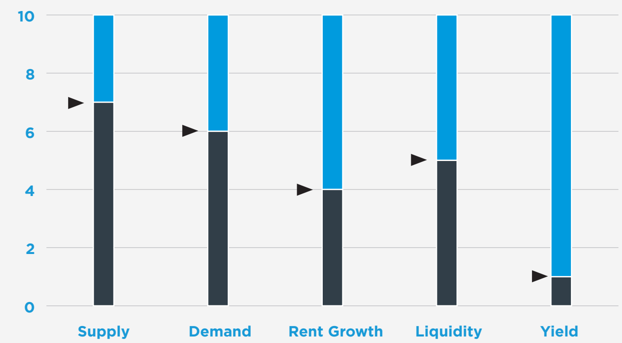
Investment Outlook

Combining the supply and demand scores of 7 and 6, respectively, Orange County has the second-highest aggregate among major U.S. markets in the 2024 Index. Mild supply-side pressure, alongside sturdy apartment demand, positions the metro to register rent growth spanning all three quality tiers this year.

Orange County's positive multifamily performance helps drive investor interest, allowing liquidity to improve to a 5 in the 2024 Index. Cap rates remain nationally tight, however, reflected in the metro having a 1 on the yield segment.

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

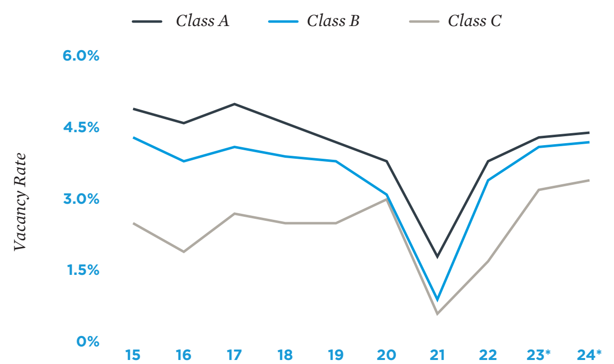
Key Performance Index



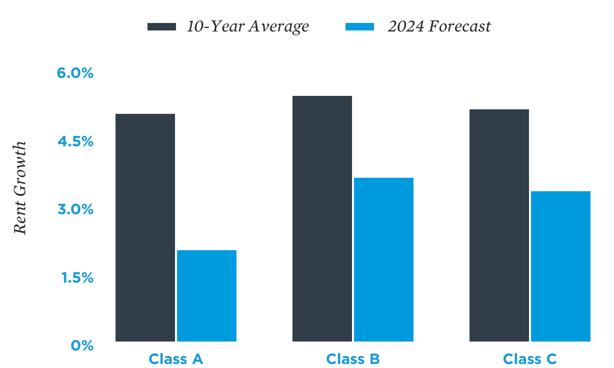
2024 MARKET FORECAST

	Metro	U.S.
Employment 18,000 *jobs*	1.0%	1.1%
Construction *% of inventory*❖	1.2%	2.5%
Class A Vacancy Up 10 bps	4.3%	6.5%
Class A Rent $3,196 *per month*	2.0%	-1.1%

Vacancy By Class



Rent Growth By Class



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** Estimate ** Forecast*

❖ Arrow reflects completions trend compared with 2023

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