MARKET REPORT

MULTIFAMILY

Orange County Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

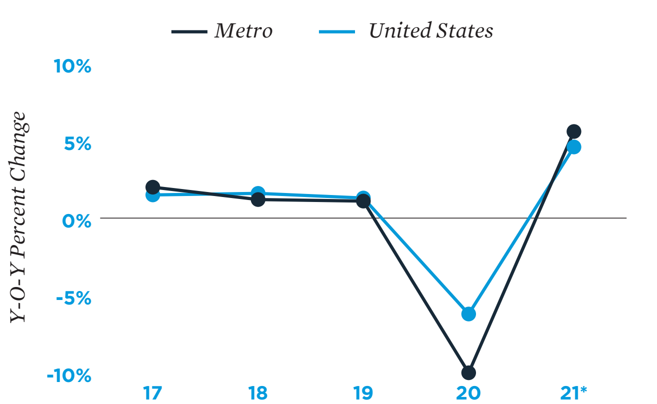
3Q/21

Orange County Among Nation's Tightest Markets; Buyer Interest Pressures Pricing

Luxury vacancy reaches 20-year low. Renter demand for high-end Orange County apartments surged over the past year as traditional office-using firms added staff. Since last July, the employment segment is responsible for nearly 20 percent of the total jobs created. Many of these positions provide individuals with an above-average wage; however, most professionals are unable to afford the metro's $1 million-plus median home price. With limited housing options and a desire for greater flexibility, these individuals filtered into the renter pool during the last 12 months. This produced a heightened level of demand for upper-tier units that cut Class A vacancy by 190 basis points. At 2.8 percent, luxury availability at the onset of the second half was the second lowest among major U.S. markets despite an average rent that exceeds the national Class A mean by $630 per month.

Near-term lull in deliveries sets stage for future influx of units. Apartment inventory is anticipated to expand by just 0.3 percent during the remainder of 2021, the lowest second half completion total in 10 years. Historically tight Class A vacancy and near-term expectations for higher-paying job creation suggest the units that are delivered will be well received. The resulting lack of available luxury rentals may force some prospective renters to lease Class B units; however, vacancy in this segment is also extremely tight at 2 percent. Additional supply, though, is on the way as in July roughly 6,400 units were underway with delivery dates beyond 2021. Of these apartments, two-thirds are in Irvine or Santa Ana.

Employment Trends



* Forecast

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

Multifamily 2021 Outlook

85,000 JOBS *will be created*

EMPLOYMENT:

Leisure and hospitality-related job creation and hiring by traditional office-using firms enable Orange County to recapture roughly half of the 167,200 positions lost in 2020. This year's 5.6 percent rate of employment growth surpasses the national pace of increase.

1,900 UNITS *will be completed*

CONSTRUCTION:

Rental inventory expands by less than 1 percent for the first time since 2014, with annual delivery volume trailing the prior five-year average by roughly 1,600 units. Completions are concentrated in locales north of the Garden Grove Freeway.

70 BASIS POINT *decrease in vacancy*

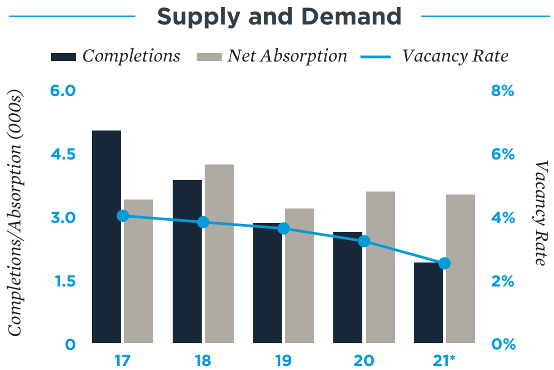
VACANCY:

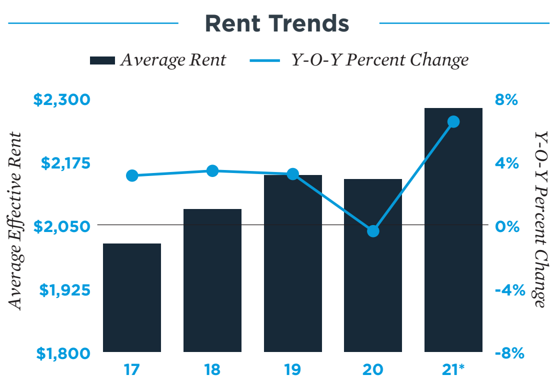
Out-of-reach home prices and job growth support demand for rentals, allowing net absorption to exceed new supply by approximately 1,600 units. At 2.5 percent the metro's year-end vacancy rate will rank among the lowest nationally.

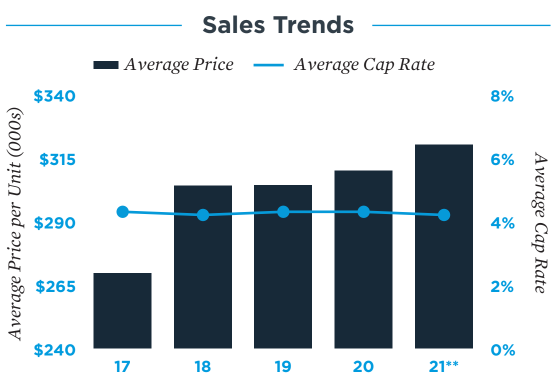
6.5% INCREASE *in effective rent*

RENT:

Tight vacancy limits concession usage at luxury and mid-tier properties this year, supporting a pace of rent growth that exceeds the combined gain registered over the prior 36 months. By the end of 2021, the average effective rent will sit at $2,280 per month.







* Forecast; ** Through 2Q

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

IPA Multifamily

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Price: $250

2Q21 — 12-Month Period

CONSTRUCTION

1,929 units completed

- Rental inventory grew by 0.7 percent over the past 12 months ended in June with projects in East Anaheim-Orange and Tustin-West Santa Ana accounting for half of the recently completed units.
- Construction is underway on 8,400 units with delivery dates extending into 2024. Two projects in Irvine account for more than 1,700 rentals.

VACANCY

180 basis point decrease in vacancy Y-O-Y

- Renters absorbed more than 6,400 units over the last year, slashing metro vacancy to 2.4 percent. All 16 submarkets noted compression including seven that registered declines of at least 200 basis points.
- The Class C sector noted the smallest vacancy decline among apartment tiers. Still, availability in the segment fell 130 basis points to 1.9 percent.

RENT

6.0% increase in the average effective rent Y-O-Y

- The improvement in apartment demand over the past 12 months enabled the average effective rent to reach $2,233 per month in June. During the prior yearlong stretch, the mean rate declined marginally.
- The top submarket for absorption over the past year, South Orange County registered the most pronounced rent growth of 10.6 percent.

Investment Highlights

- Sales activity rose marginally year over year ending in June, driven by California-based investors executing 1031 exchanges. The recent improvement in apartment fundamentals facilitated a 4 percent annual gain in the average sale price to $320,300 per unit. Complexes that traded for more than $1 million over the past year had an average cap rate of 4.2 percent. Among major U.S. markets only properties in San Francisco traded at a lower mean return.
- Transactions in Anaheim and central Orange County cities west of Interstate 5 accounted for half of all deal flow over the past 12 months. Investors are acquiring Class C properties at high-3 percent minimum cap rates in these locales, with returns rarely exceeding the high-5 percent band. Buyers seeking lower entry costs are active in Santa Ana and Garden Grove where sub-$260,000 per unit pricing remains common. In Anaheim, asset values are slightly higher with properties trading for an average of $280,000 per door.
- Coastal communities including Costa Mesa and Huntington Beach accounted for most of the remaining transaction velocity with buyers accepting low-2 percent to low-4 percent yields for smaller assets.