Market Insights

Orange County Multifamily 4Q 2021

Northmarq

Construction Activity

5,242

Units under construction

680

Units delivered (YTD)

Market Fundamentals

3.4%

Vacancy

-30bps | Year over year change

$2,327

Asking Rent

+19.1% | Year over year change

Transaction Activity

$384,700

Median sales price per unit (YTD)

Rents on the Rise as Labor Market Rebounds

Highlights

- New renter demand outpaced supply growth in 2021, and this imbalance supported tightening vacancy levels and a spike in rents. Some of the strongest market performance was recorded during the fourth quarter.
- Vacancy declined 30 basis points during 2021 to 3.4 percent, reaching its lowest figure in the market since early 2017. The rate held steady in the fourth quarter.
- Asking rents rose at an unprecedented rate in recent months, advancing 6.4 percent in the fourth quarter alone. Rents ended 2021 at $2,327 per month, up 19.1 percent for the full year.
- Multifamily sales activity spiked in the second half of 2021 as the market reached new highs for transaction volume. Prices pushed higher, reaching $384,700 per unit through the end of 2021, while cap rates compressed to below 3.5 percent in the fourth quarter.

Orange County Multifamily Market Overview

The Orange County multifamily market posted healthy rent growth during the fourth quarter while vacancy remained tight across all property classes and most submarkets. Apartment developers struggled to meet demand in 2021 as the annual total for new units reached its lowest level in the past decade. While construction has been modest, the demand for existing units rose as the economy gained momentum. The result was a surge in rents, particularly in recent quarters. Asking rents advanced more than 19 percent in 2021, after spiking by more than 6 percent in the fourth quarter. Further rent growth is expected in the year ahead.

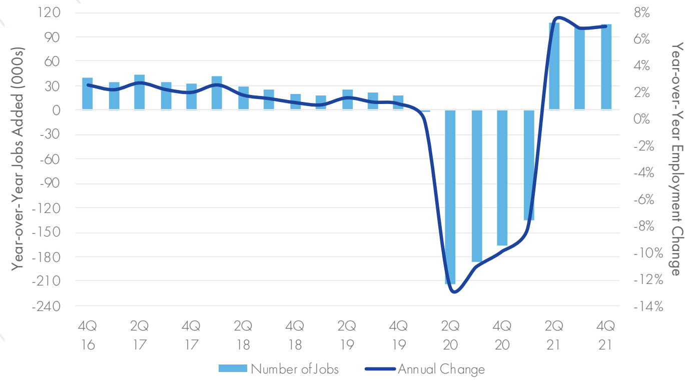
The investment market in Orange County surged in 2021, particularly in the second half of the year as buyers and sellers responded to the market's rapid rent increases and tightening vacancy levels. Total transaction activity for the full year reached levels last recorded nearly 20 years ago, with the bulk of the volume recorded beginning in the third quarter. The results of the accelerating transaction activity included a steep rise in prices and continued compression in area cap rates. The median per-unit price rose nearly 25 percent from 2020 to 2021, and by the end of the year, properties were changing hands with cap rates below 3.5 percent.

Employment

- Employers in Orange County have added back jobs at a fairly consistent pace the last six quarters. Total employment expanded by more than 22,400 positions during the fourth quarter of 2021, following the addition of approximately 20,000 jobs during the third quarter.
- Employers in Orange County added more than 105,000 jobs in 2021, advancing nearly 7 percent. Total employment is still down approximately 4.3 percent from its pre-pandemic peak but is expected to return to its previous highs by the end of 2022.
- The professional and business services sector traditionally fuels the Orange County economy. The sector posted a strong recovery in 2021, expanding by 6.4 percent with the addition of more than 19,000 jobs. Total employment in the sector is now down less than 1 percent from its pre-COVID peak.
- **Forecast:** Employment in Orange County is expected to continue to expand as the California economy returns to normal. Local employers are forecast to add approximately 75,000 jobs by the end of 2022, a growth rate of 4.6 percent. Total employment in Orange County should surpass its pre-pandemic highs in the year ahead.

> Employers added more than 105,000 jobs in 2021.

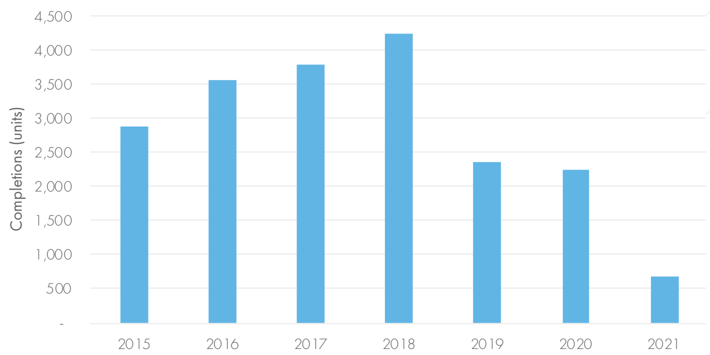
Employment Overview



Sources: Northmarq, Bureau of Labor Statistics

> Projects totaling 5,240 units are currently under construction.

Development Trends



Sources: Northmarq, Reis

Development and Permitting

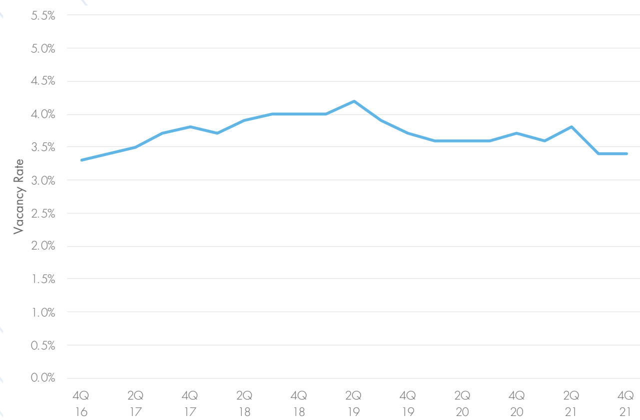
- New multifamily construction slowed in the second half of 2021 with no significant projects coming online in the final six months of the year. After a spike in deliveries from 2017 through 2020, developers completed only 680 units in the past year, down nearly 70 percent from 2020 levels.
- While apartment completions slowed, projects totaling approximately 5,240 units are currently under construction in Orange County. The number of units being developed has increased approximately 20 percent from the end of 2020.
- After a slight decline in 2020, permitting activity has returned to normal levels in recent quarters. Developers pulled permits for nearly 4,200 multifamily units during 2021, up more than 15 percent from the previous year.
- **Forecast:** Multifamily construction is expected to accelerate in the coming quarters, as more than 3,000 units are forecast to come online by the end of 2022. New apartment completions peaked in 2018 with the delivery of more than 4,200 units.

Vacancy

- Vacancy held steady during the final three months of the year, matching the rate from the third quarter at 3.4 percent. The current rate is at its lowest level since the beginning of 2017.
- The vacancy rate in Orange County dropped 30 basis points during 2021 as absorption outpaced new supply growth by nearly 40 percent for the full year.
- Orange County maintains some of the lowest vacancy rates in the nation with one-third of its submarkets below 2.5 percent. The tightest submarkets in the region include Brea, Buena Park, Costa Mesa, and Tustin, all with vacancies between 1.5 percent and 2 percent. New apartment construction has been limited in these areas in recent years, driving vacancies even lower.
- **Forecast:** With multifamily construction activity expected to accelerate in the year ahead, vacancy is forecast to inch higher in 2022. The rate is expected to rise 20 basis points during the year, ending 2022 at 3.6 percent.

> Vacancy dropped 30 basis points during 2021.

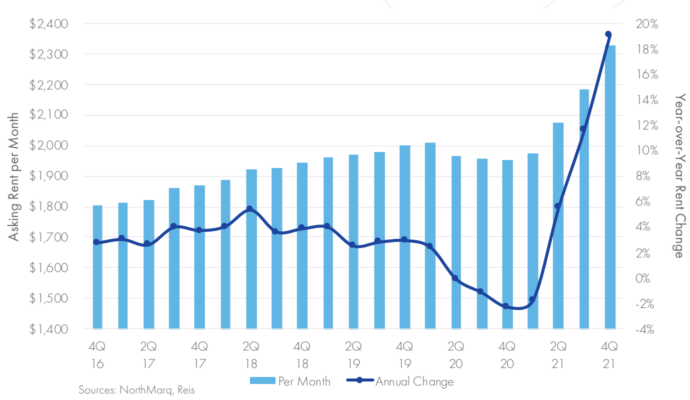
Vacancy Trends



Sources: NorthMarq, Reis

> Class A rents rose nearly $450 per month in 2021.

Rent Trends



Sources: NorthMarq, Reis

Rents

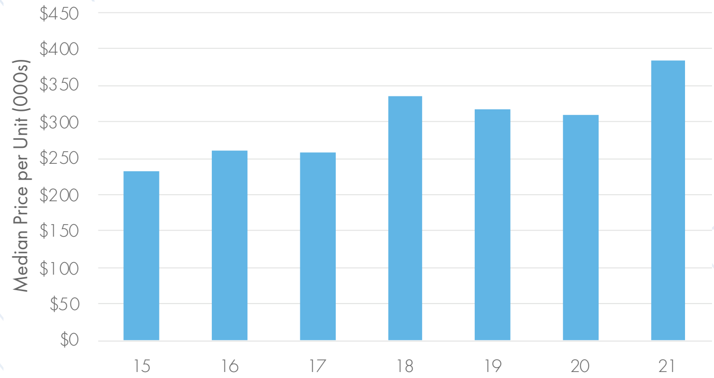
- Fueled by limited supply growth and consistent demand, asking rents in Orange County jumped during the fourth quarter. Rents rose 6.4 percent in the final three months of the year, reaching $2,327 per month.
- The past year was the strongest period of rent growth in the market in the past 20 years. Local asking rents advanced more than 19 percent in 2021. In the market's most expensive submarkets, including Irvine and Newport Beach, growth averaged more than 20 percent in 2021, with rents ending the year near $3,000 per month.
- Although rents advanced across all asset classes, the largest gains were recorded in newer, more expensive properties in recent months. Asking rents in Class A units rose approximately 7.5 percent during the fourth quarter, ending the year at $2,771 per month. Class A rents rose nearly $450 per month in 2021.
- **Forecast:** Local asking rents are expected to continue to rise in the coming quarters, although the pace of growth is expected to slow following recent spikes. Average rents in Orange County are forecast to advance 6 percent in 2022, ending the year at approximately $2,465 per month.

Multifamily Sales

- Sales velocity posted a sharp rebound during the second half of the year. The number of transactions that closed in the second half of 2021 was up 70 percent from the first-half total. For the full year, sales velocity more than doubled levels recorded in 2020, and activity was up 50 percent from the average recorded from 2015 to 2019.
- With investor demand intensifying and rapid rent growth being recorded, per-unit prices spiked in 2021. The median price reached more than $384,700 per unit through the end of the year, up nearly 25 percent from the 2020 figure.
- Cap rates in Orange County remained low at the end of 2021. Nearly every property that sold in the fourth quarter transacted with a cap rate below 3.5 percent.

> Sales velocity more than doubled levels recorded in 2020.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

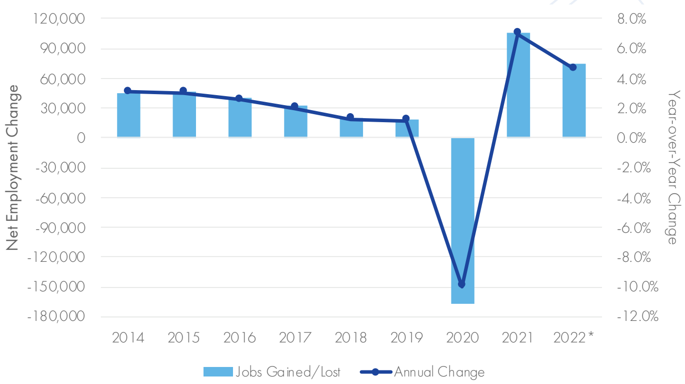
Property Name	Street Address	Units	Sales Price	Price/Unit
Valentia by Windsor	951 S Beach Blvd., La Habra	335	$182,500,000	$544,776
Fullerton Hills Apartments	1203-1311 N Gilbert St., Fullerton	168	$68,925,000	$410,268
Echo 116	1727 W Glenoaks Ave., Anaheim	116	$37,250,000	$321,121

Looking Ahead

After a year where demand for apartment units outpaced supply growth, the multifamily market in Orange County will likely return closer to equilibrium in 2022. Demand will be supported by a continuing rebound in the local labor market, and employment totals in Orange County should surpass pre-COVID levels this year. Developers are on pace to ramp up deliveries in 2022, alleviating some of the existing supply/demand imbalance. Projects totaling more than 5,200 units were under construction at the beginning of 2022, including a few large developments, several of which will begin coming online in the coming year. Rents will likely continue to trend higher, but the rapid gains recorded in 2021 are not expected to be repeated.

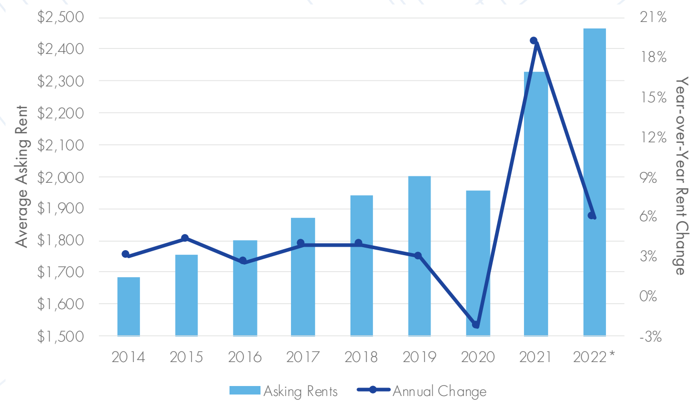
Following a dip in transaction activity during 2020 and into 2021, the multifamily investment market rallied in the second half of the year, brightening the outlook for 2022. Multifamily investors in Orange County regained confidence in recent quarters after unprecedented rent growth in the region and a tightening vacancy rate. As the local economy continues to gain momentum and reaches a full recovery, Orange County will remain an increasingly attractive and stable market for investors. Cap rates in the market are typically among the lowest in the country. With inflation rising, investors may look at adding to real estate portfolios as a natural hedge against rising costs.

Employment Forecast



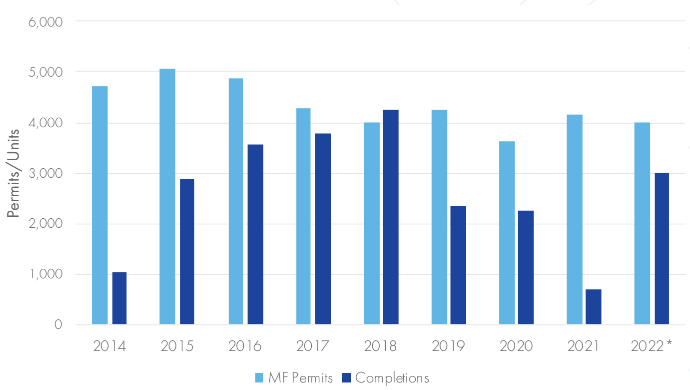
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



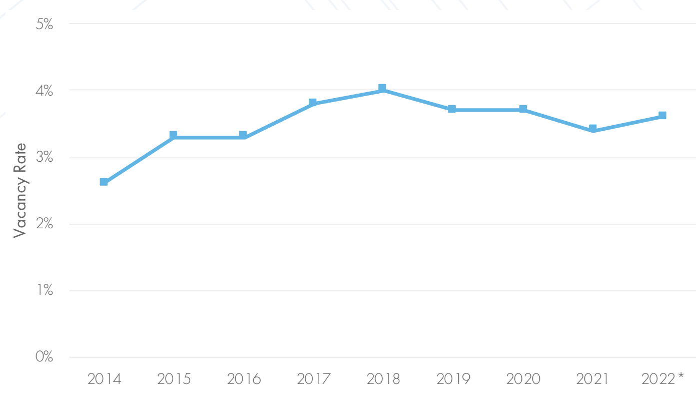
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: Northmarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

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