

Rents trend higher, supported by continued demand

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **7,189**

UNITS DELIVERED **2,432**

MARKET FUNDAMENTALS



VACANCY RATE **3.6%**

YEAR-OVER-YEAR CHANGE **+30bps**

ASKING RENTS **\$2,527**

YEAR-OVER-YEAR CHANGE **+1.5%**

TRANSACTION ACTIVITY (YTD)



MEDIAN SALES PRICE **\$376,400**

HIGHLIGHTS

- The Orange County multifamily market recorded an uptick in vacancy and rising rents during the fourth quarter. The pace of deliveries has quickened since the second half of 2022, after almost no new supply was added a few years ago.
- Vacancy rose 10 basis points in the fourth quarter, after the rate held steady throughout the middle part of 2023. This year marked the first annual vacancy increase in the market since 2018.
- Asking rents rose in the second half of the year, ending 2023 at \$2,527 per month. Rents advanced 1.5 percent in 2023 after steep increases in the prior two years.
- Local multifamily investment activity slowed in 2023, with limited activity during the fourth quarter. Prices have remained elevated for the past three years; in 2023, the median price reached \$376,400 per unit.

ORANGE COUNTY MULTIFAMILY MARKET OVERVIEW

Property fundamentals in the Orange County multifamily market were stable throughout much of 2023, even as the pace of new development gained momentum. Vacancy rose 30 basis points during the course of the year, but the current rate is identical to the region's average since 2015. Further, the uptick represents the first annual vacancy increase since 2018, and the rate has remained within a tight range between 3-4 percent for the past several years. The long-term stability in area vacancies continue to allow for rent increases. During the past year, rents gained 1.5 percent, following a two-year period where average rents rose by approximately \$500 per month across the region.

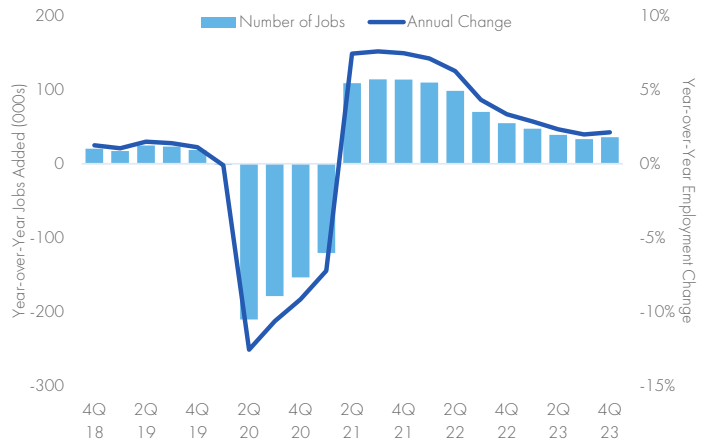
Fewer apartment properties traded in 2023 than in prior years, as rising interest rates sidelined investors in a market where cap rates often remain quite low. Some of the lowest volumes of transaction activity were recorded during the fourth quarter, when volatile interest rate conditions created additional challenges in getting deals done. Cap rates have begun to trend higher, averaging above 5 percent in the second half of 2023. The total number of sales in 2023 was down 57 percent from the previous year, with fourth quarter transactions down 33 percent. Pricing remained elevated even as sales velocity slowed; the median price was \$376,400 per unit in 2023.

EMPLOYMENT

- The Orange County labor market strengthened in 2023, with area employers adding workers at a steady pace. During the past 12 months, the local labor market expanded by 2.1 percent, as 35,900 net new jobs were added.
- The leisure and hospitality industry added jobs at a faster rate than any other major industry. In 2023, employment in this sector increased by 4.8 percent, adding 10,800 workers. Leisure and hospitality employment has now fully recovered, surpassing its early 2020 peak during the fourth quarter.
- Mullen Automotive, a company that produces electric vehicles for commercial use, leased the former Kraft-Heinz factory in Fullerton, converting the 122,000-square foot warehouse into a battery development and production facility. The company employs more than 100 workers in Orange County.
- **FORECAST:** Orange County’s core industries should post steady gains in 2024, supporting the local labor market. Employers are forecast to add approximately 20,000 jobs in the coming year, a 1.2 percent addition to area payrolls.

During the past 12 months, the local labor market expanded by 2.1 percent.

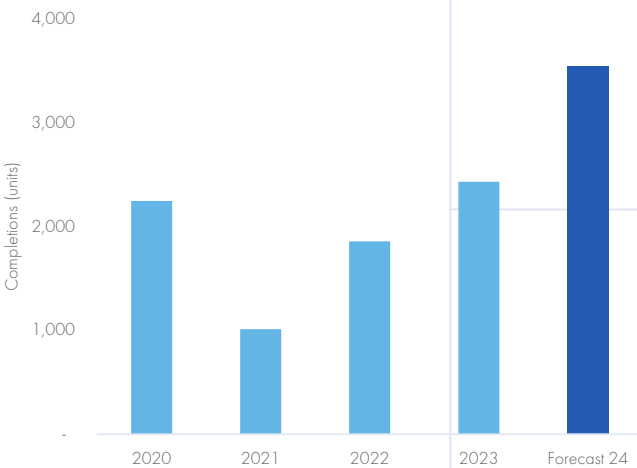
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling more than 7,000 units are under construction.

DEVELOPMENT TRENDS



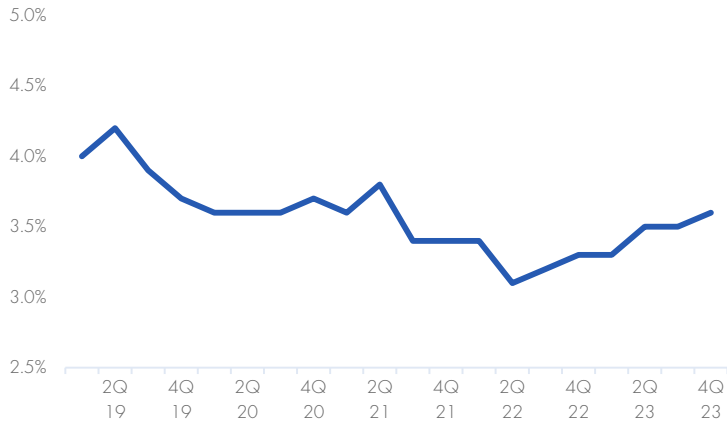
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- After heightened levels during the first part of the year, deliveries slowed in the fourth quarter, with projects totaling approximately 350 units coming online. For the full year, more than 2,400 units were delivered, up 31 percent from 2022 levels.
- Projects totaling more than 7,000 units are currently under construction throughout Orange County, up 15 percent from one year ago. Irvine continues to be the leader in new development for the region; roughly half of all units that are under construction are located in the Irvine Business Complex.
- Multifamily permitting slowed in the fourth quarter as developers pulled permits for approximately 750 units. In total, nearly 3,700 permits were pulled in 2023, down 13 percent from 2022.
- **FORECAST:** Developers are on pace to deliver approximately 3,500 units in 2024, up about 45 percent from the 2023 total.

Vacancy rose 10 basis points in the fourth quarter.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

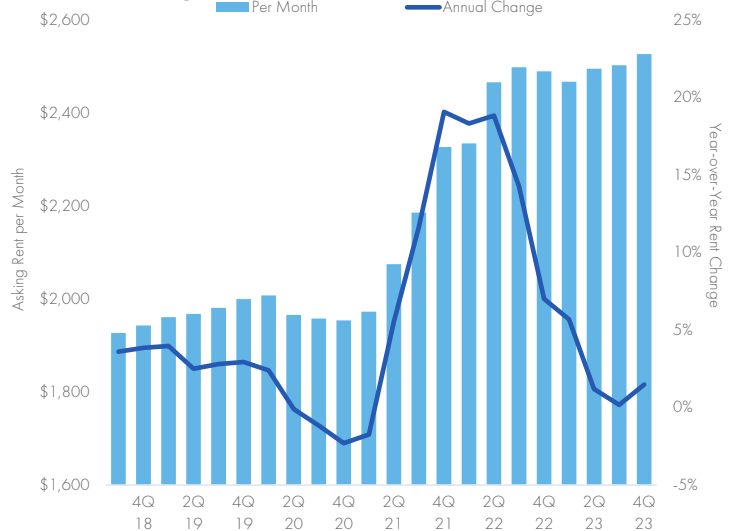
- Vacancy in Orange County rose 10 basis points in the fourth quarter, reaching 3.6 percent. The rate inched up 30 basis points in 2023, after dipping 10 basis points in the prior year.
- Vacancy in Orange County has remained within a tight range for nearly a decade, staying between 3 percent and 4 percent. The average vacancy rate in the region since 2015 is 3.6 percent, only 10 basis points lower than the current figure.
- Buena Park, Orange County's second largest submarket by number of units, recorded a 1.6 percent vacancy rate in the fourth quarter. This is a 20 basis point drop in vacancy year over year, highlighting the ongoing demand in the area. The submarket benefits from proximity to job centers in Anaheim and a limited amount of competition from new supply.
- **FORECAST:** With the increase in development activity expected in the coming months, the vacancy rate will likely tick higher. Area vacancy is forecast to reach 3.8 percent in 2024, an increase of 20 basis points.

RENTS

- Rents in Orange County have demonstrated consistency in recent quarters. Asking rents ended the year at \$2,527 per month. During the past 12 months, local asking rents posted a 1.5 percent increase.
- Rents were mostly stable across property classes in 2023. Asking rents for Class A properties closed 2023 at nearly \$3,000 per month, a rise of 1.6 percent for the full year. This followed annual spikes of 19 percent in 2021 and 7 percent in 2022.
- While much of Orange County recorded flatter rent growth, the Irvine submarket posted healthy gains in 2023. The average asking rent in the submarket spiked 5 percent in 2023, rising to \$3,236 per month. The submarket's large Class A inventory continues to command rent growth.
- **FORECAST:** Asking rents are expected to continue growing at a modest pace through 2024 with absorption steady and new product entering the local inventory. Apartment rents in Orange County are forecast to rise 2.5 percent in the next 12 months to roughly \$2,590 per month.

Asking rents ended the year at \$2,527 per month.

RENT TRENDS



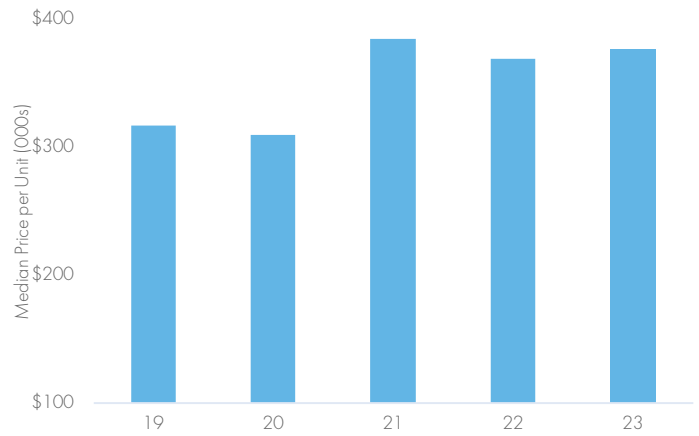
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Multifamily investment sales in Orange County softened in 2023 as the number of transactions declined from the previous year. Overall transactions in 2023 are down 57 percent from annual totals recorded last year. A few properties traded in the fourth quarter, but activity was stronger during the third quarter.
- While fewer properties are changing hands, pricing has remained consistent for the past three years. The median sales price in 2023 was \$376,400 per unit, nearly identical to the median prices in the prior two years.
- Cap rates in Orange County continued to trend higher through the end of the year. Cap rates averaged about 5.25 percent in the fourth quarter. Cap rates averaged between 3.5 percent and 4.25 percent in the second half of 2022 and in early 2023 but have trended higher since midyear.

The median sales price in 2023 was \$376,400 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

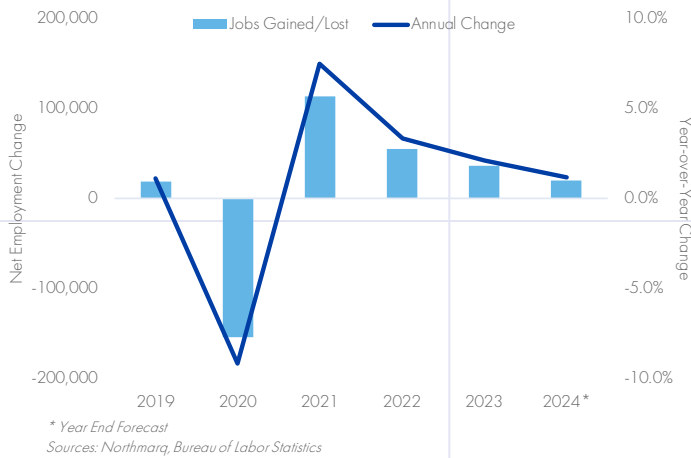
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
The Grand Costa Mesa	2855 Pinecreek Dr	714	\$234,000,000	\$327,731

LOOKING AHEAD

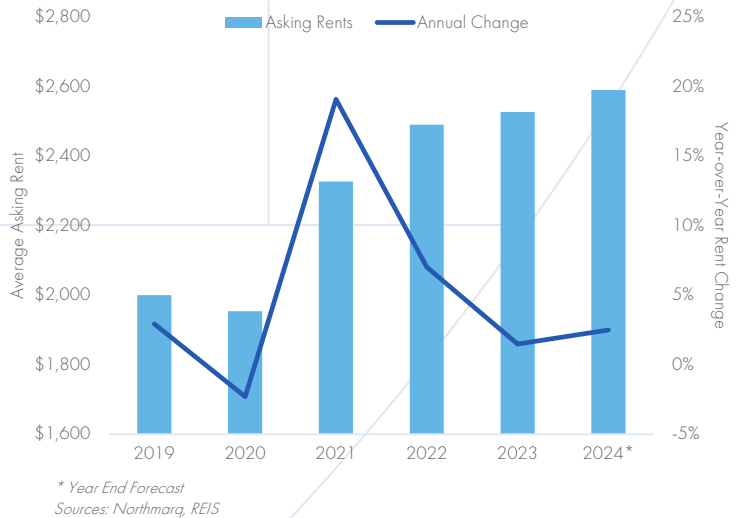
Multifamily deliveries are forecast to reach their highest levels in Orange County since 2018 in the coming year, but operating fundamentals should remain healthy. The accelerating pace of new inventory is a continuation of a trend that has emerged in recent years, following a virtual stall in the development pipeline in 2020 and 2021. This year, construction will be concentrated in Irvine and Anaheim, and inventory growth throughout the rest of Orange County will be limited. As such, vacancy throughout much of the region is expected to remain tight enough to allow for rent increases that will outpace the national average. While additions to supply are forecast to accelerate, there could be some slowing from a demand standpoint. Employers are forecast to add jobs more slowly in 2024, although some of Orange County’s white-collar sectors could record faster gains than in the past year.

The 2024 investment outlook for Orange County is somewhat mixed. The market should benefit from one of the lower vacancy rates in the country, and the forecast for modest rent growth will appeal to investors. Further, the introduction of new inventory into the market could result in some added transaction volumes; since 2021, more than a dozen new construction properties have traded, often at prices between \$400,000 per unit and \$650,000 per unit. While there are forces that should result in additional transaction volumes, area cap rates may restrict transactions. Traditionally, cap rates in Orange County are among the lowest in the country, and there may not be much of a spread between cap rates and current lending rates. If anticipated declines in interest rates occur, it could support a more active investment market, particularly in the second half of the year.

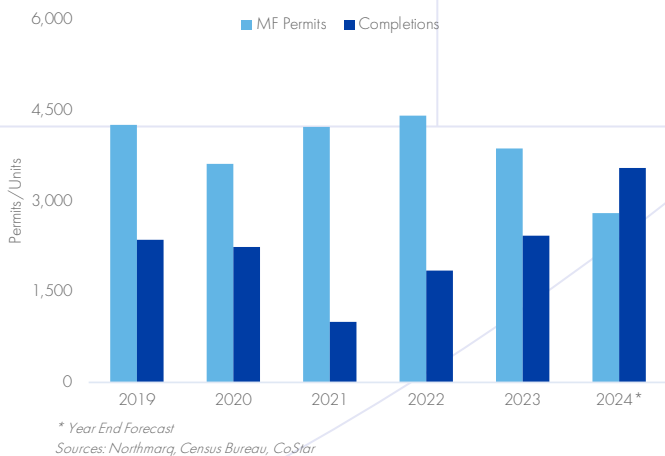
EMPLOYMENT FORECAST



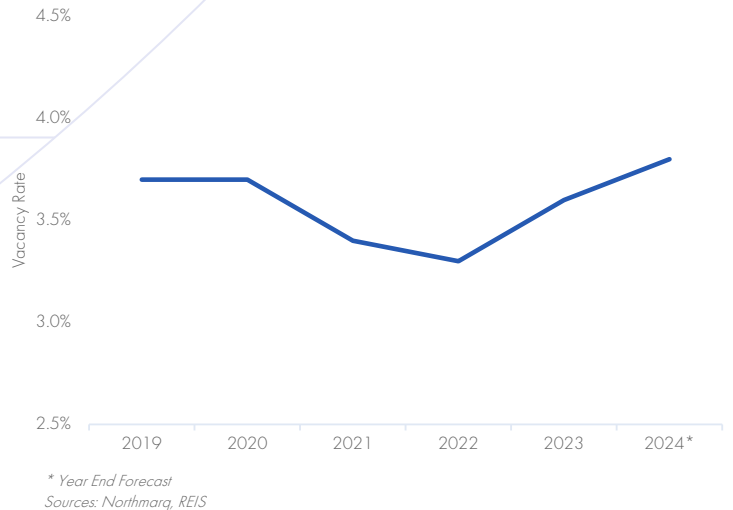
RENT FORECAST



CONSTRUCTION & PERMITTING FORECAST



VACANCY FORECAST





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