Orange County Multifamily

NorthMarq

Despite the Shutdown, Apartment Vacancy Trends Lower

Highlights

- While each market is dealing with individual challenges brought on by the global pandemic, the Orange County multifamily market has posted relatively steady performance through the first half of 2020. The vacancy rate declined through the first half, while rents recorded a minor downtick in the second quarter but remained positive annually.
- Vacancy held steady at 3.6 percent in the second quarter; the rate has decreased 60 basis points year over year. Vacancy in Class B and Class C units averages 2.8 percent.
- Current asking rents are $1,998 per month, 1.5 percent higher than one year earlier. Annual rent growth has been softening since peaking in the second quarter of 2018 at 5.3 percent.
- The investment market in Orange County produced mixed results through the first half of the year. Sales velocity is lagging considerably from 2019 levels; prices are slightly higher, and cap rates have remained near 4 percent.

Q2 Snapshot	Orange County Market
Market Fundamentals	
Vacancy	**3.6%**
- Year Over Year Change	**-60 bps**
Asking Rent	**$1,998**
- Year Over Year Change	**+1.5%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$287,300**
Cap Rates (Avg YTD)	**4.0%**
Construction Activity	
Units Under Construction	**3,682**
Units Delivered YTD	**836**

Orange County Multifamily Market Overview

The Orange County multifamily market posted a surprisingly strong performance in the first half of 2020, even as markets throughout the country battled the disruption from coronavirus. The local vacancy rate has been steadily improving during the past year, declining 60 basis points and outperforming expectations. While Orange County is home to some of the world's most well-known tourist attractions, which have been hard-hit during the shutdown, the area also has a large professional workforce that has provided stability to the local economy.

While multifamily property performance beat expectations during the first half of the year, investment activity was minimal as many participants took a wait-and-see approach. The stable performance should result in increased activity levels in the coming quarters, particularly if rent collections remain strong. In the few projects that have changed hands, pricing and cap rates are maintaining levels from recent years. Low interest rates should continue to support current price and cap rate trends.

Employment

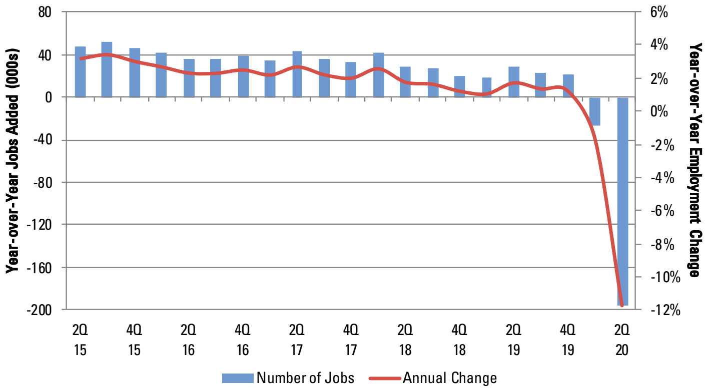
> During the second quarter, employers in Orange County faced significant headwinds from the economic shutdowns caused by COVID-19, and severe job losses occurred in April. Year over year through the second quarter, employers shed 196,200 jobs.

> The leisure and hospitality sector recorded the most drastic job cuts, and pandemic-related losses totaled roughly 105,000 net jobs. However, payrolls began to bounce back in June, with employers adding back nearly 45,000 jobs. Before the pandemic, the sector accounted for more than 13 percent of the total workforce in Orange County.

> While most employment sectors in the market are still not yet at full strength, the construction sector has rebounded. Losses of construction jobs were modest, and more than 95 percent of the positions that were cut have already come back to the market.

> **Forecast:** All major markets are forecast to record job cuts this year, and Orange County will likely follow this trend. High-wage professional and financial sectors are expected to support the overall local labor market.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Year over year through the second quarter, employers shed 196,200 jobs

Vacancy

> While the economy has been in flux, multifamily vacancy in Orange County has been very steady. The rate finished the second quarter at just 3.6 percent, down 10 basis points year to date.

> During the past 12 months, the local vacancy rate has recorded steady improvement. The rate is 60 basis points lower than one year ago.

> Renter demand for Orange County's Class B and Class C apartments is often quite strong, leading to consistently low vacancy rates. The combined vacancy rate for Class B and Class C units in the second quarter was 2.8 percent, 20 basis points lower than one year ago.

> **Forecast:** The vacancy rate is expected to edge higher in the second half of the year, but conditions are likely to remain fairly tight in Orange County. Vacancy is forecast to rise to 4.1 percent at year end.

Vacancy Trends

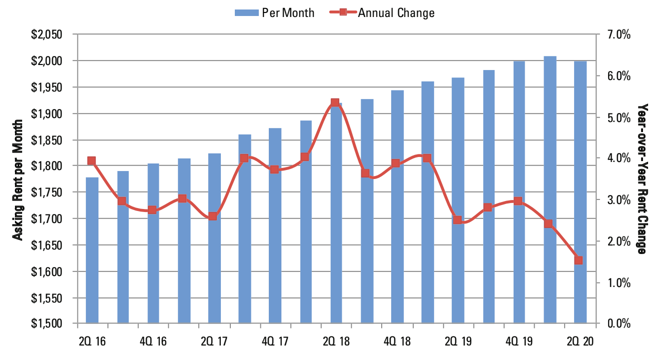
Sources: NorthMarq, Reis

Vacancy finished the second quarter at just 3.6 percent

Rents

- Following a minor uptick in the first quarter, rent growth turned slightly negative in the second quarter. Asking rents in Orange County dipped 0.5 percent in the second quarter, finishing at $1,998 per month.
- Annual rent growth remained positive and local asking rents advanced 1.5 percent over the past year. Rent growth one year earlier was averaging approximately 2.5 percent.
- Class B and Class C asking rents ended the second quarter at $1,765 per month, 1.2 percent higher than the previous year. High demand for lower-cost housing options in the Orange County market has helped fuel steady rent growth in the combined building classes.
- **Forecast:** Rents in Orange County are expected to end the year just below $2,000 per month, which would be an annual decline of less than 1 percent.

Rent Trends



Sources: NorthMarq, Reis

Local asking rents have advanced 1.5 percent over the past year

Development and Permitting

- The pace of deliveries slowed in the first half of 2020, as construction delays ensued across the country. Multifamily developers brought more than 830 units online in the first half of the year, a figure that is down nearly 45 percent from the same period in 2019.
- The development pipeline has been filling even as completions slowed. Apartment projects in Orange County totaling approximately 3,700 units are currently under construction, up more than 35 percent from the total one year ago.
- The Irvine submarket is responsible for around 65 percent of the ongoing construction in Orange County. Developers have approximately 2,400 units under construction in the submarket.
- **Forecast:** Projects totaling approximately 2,000 units are expected to come online in 2020. Some new developments have been slowed in recent months, which could result in a few deliveries pushed into early 2021.

Development Trends

Sources: NorthMarq, Reis

Apartment projects in Orange County totaling approximately 3,700 units are currently under construction

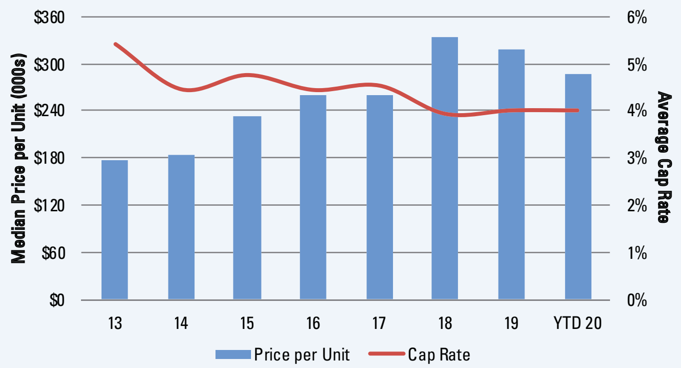
Multifamily Sales

> After a modest year for investment activity in 2019, sales velocity was minimal through the first half of 2020. Only a few properties have changed hands thus far in 2020, and no significant deals occurred in the second quarter. Transaction activity through the first half of this year is down nearly 70 percent from the same period in 2019.

> In the few deals that have closed thus far in 2020, the median price was $287,300 per unit.

> Through the first half of the year, cap rates have averaged approximately 4 percent, similar to levels recorded during the past few years.

Investment Trends



Sources: NorthMarq, CoStar

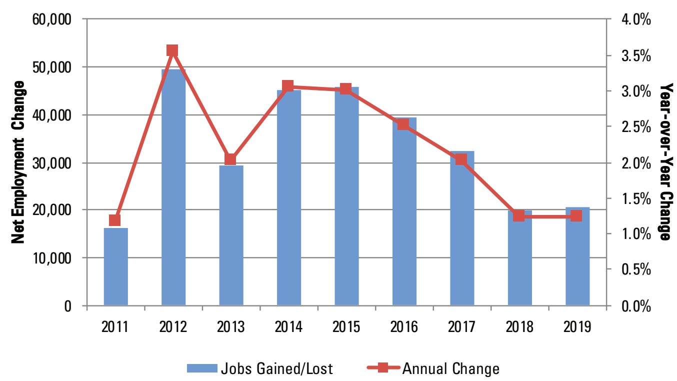
The median price for deals closed in the first half of this year was $287,300 per unit

Looking Ahead

The Orange County multifamily market has continued to post healthy performance even as the economy has been volatile. For conditions to remain strong, the employment market will need to eventually recover. One factor dragging on the Orange County economy is the continued shutdown of Disneyland and California Adventure. The Walt Disney Company is Orange County's largest employer, and a key economic driver for surrounding shops and hotels, and the local economy will not fully rebound until the parks and the hotels of the Disneyland Resort reopen.

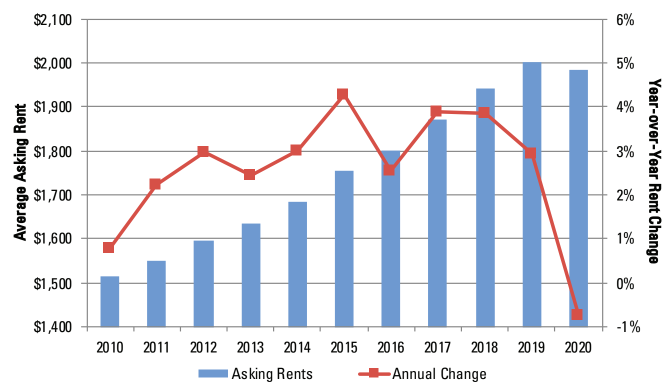
The investment market in Orange County is expected to regain momentum in the coming months, following a period of limited transaction activity brought about by uncertainty. The market's surprisingly strong operational performance should buoy investor sentiment and lead to resumed sales velocity before the end of 2020. While some investors may await additional evidence of recovery before returning to the market, there should be sufficient demand to support traditional levels of investment volume and keep cap rates and property pricing in line with earlier levels.

Employment Forecast



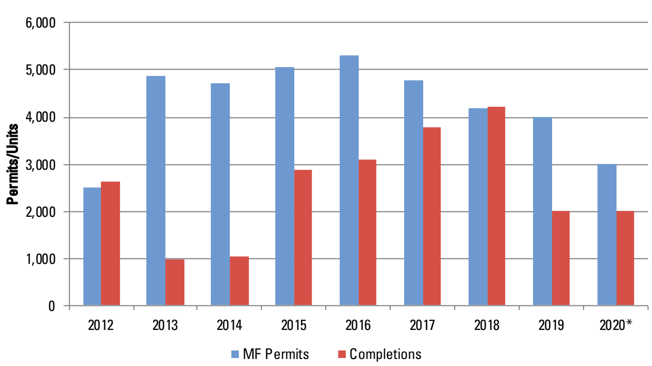
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



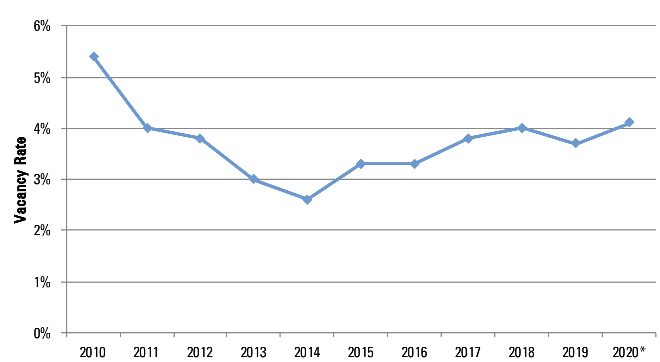
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

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