

Orange County Multifamily




Resumed Hiring Sets the Stage for a Strong Second Half

Highlights

- > The economy in Orange County is recovering, with employers bringing back workers at a rapid pace. This reopening trend is supporting the local multifamily market. Vacancies inched higher in the second quarter, but the pace of rent growth accelerated, setting the stage for a strong second half of the year.
- > Vacancy rose 20 basis points in the second quarter, with the rate inching up to 3.8 percent. Supply growth in the first half has been modest, but absorption has lagged levels recorded in recent years. Year over year, vacancy is up 20 basis points.
- > After ticking lower at the end of the last year, rents have bounced back in each of the first two quarters of 2021. Asking rents ended the first half at \$2,075 per month, up 5.5 percent year over year.
- > The median price in transactions closed year to date is \$351,200 per unit, up 13 percent from the median price in 2020. Cap rates have compressed as the economic outlook has brightened; cap rates have averaged 3.8 percent in 2021, down 20 basis points from the past two years.

Orange County Multifamily Market Overview

The Orange County multifamily market posted mixed performance during the second quarter. The pace of rent growth accelerated for the second straight quarter, following some modest contraction during the second half of last year. Vacancies ticked higher, but the rate remains below 4 percent. While the local labor market posted a sharp rebound adding more than 40,000 jobs during the second quarter, renter demand has been slow to gain traction. Apartment absorption has been minimal to this point in 2021, following active leasing conditions in recent years. Deliveries of new units slowed in the first half, limiting supply-side pressures, but the pace of construction is forecast to accelerate in the coming months.

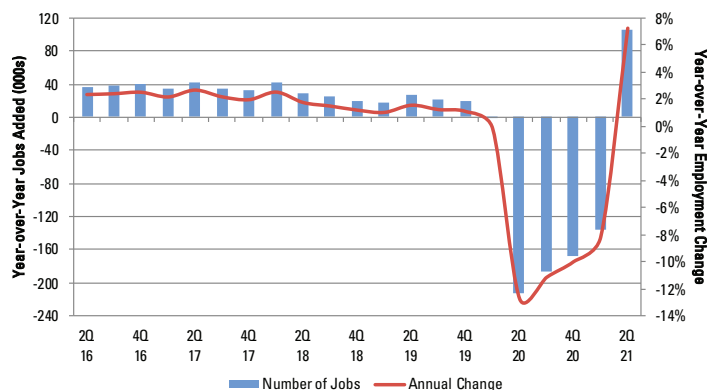
Q2 Snapshot	Orange County Market
	Market Fundamentals
	Vacancy 3.8%
	- Year Over Year Change +20 bps
	Asking Rent \$2,075
	- Year Over Year Change +5.5%
	Transaction Activity
	Median Sales Price Per Unit (YTD) \$351,200
	Cap Rates (Avg YTD) 3.8%
	Construction Activity
	Units Under Construction 5,364
	Units Delivered YTD 390

Investment activity in Orange County in the second quarter closely tracked levels recorded during the first three months of the year. The mix of properties that sold was slightly different, however, with activity picking up in sales of properties with fewer than 100 units, and fewer sales of newer projects with 200 units or more. The bulk of the sales activity during the second quarter was between \$15 million and \$30 million, after sales of \$50 million or more dominated the investment landscape at the outset of this year. Per-unit prices continued to trend higher across all segments of the market, and cap rates have compressed to below 4 percent.

Employment

- > With California’s economy reopening, employment in Orange County posted a strong rebound during the second quarter. The local economy added nearly 42,000 jobs in the second quarter alone, bringing the total gains for the first half of the year to nearly 60,000.
- > Year over year, local employment in Orange County is up roughly 7.3 percent, adding more than 106,000 jobs. Additional gains are likely as the economy returns to full employment. Current employment totals are down approximately 7 percent from the pre-COVID peak.
- > The large professional and business services sector has been one industry driving growth in Orange County in recent quarters. Year over year, employment in the sector has expanded by more than 20,000 jobs, a 6.8 percent gain.
- > **Forecast:** The local employment market is forecast to continue to bounce back in the second half of the year, following a rebound to start 2021. For the full year, employers are forecast to add 95,000 jobs, a gain of 6.3 percent.

Employment Overview

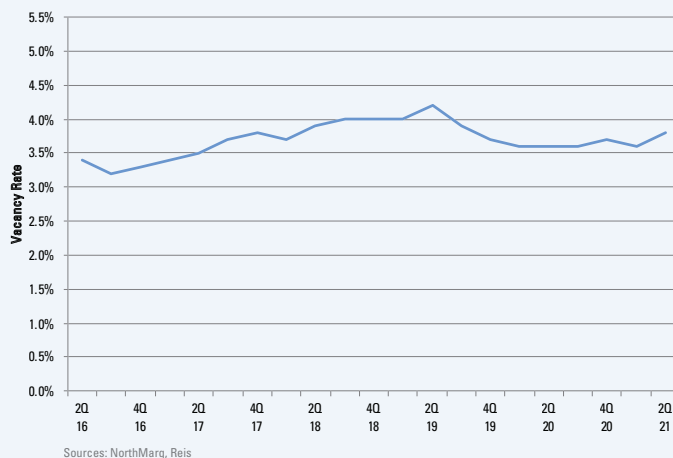


The local economy added nearly 42,000 jobs in the second quarter alone

Vacancy

- > Vacancy inched higher in Orange County during the second quarter, rising 20 basis points to 3.8 percent. The current rate is also up 20 basis points year over year. Despite some minor quarterly movements, the vacancy rate in Orange County has remained below 4 percent since the beginning of 2019.
- > Class A vacancy has been trending higher in recent periods, reaching 4.9 percent at the end of the second quarter. The current figure is up 40 basis points year over year. Absorption in Class A units has averaged more than 3,000 units per year since 2017 but was essentially flat in the first half of this year.
- > The submarkets that are closest to the coast have maintained low vacancy rates, despite economic volatility since the beginning of last year. Areas such as Costa Mesa, Laguna Beach, and Newport Beach all have vacancy rates ranging from 2 percent to 3 percent. New construction has been limited in these areas in recent years, supporting tight vacancy conditions.
- > **Forecast:** Renter demand for apartments should accelerate in the second half of the year as the Orange County economy gains momentum. Vacancy is forecast to end the year at 3.6 percent, the lowest year-end figure since 2016.

Vacancy Trends

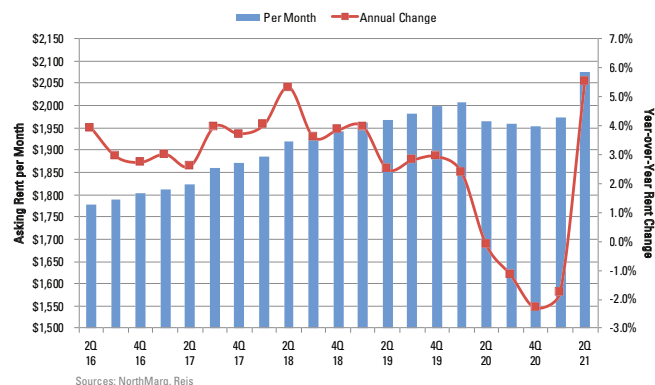


The vacancy rate has remained below 4 percent since the beginning of 2019

Rents

- > Average rents in Orange County spiked during the second quarter, reaching \$2,075 per month. Year to date, rents are up 6.2 percent.
- > Year over year, asking rents are up 5.5 percent. Rents passed the pre-pandemic highs during the second quarter, and additional increases are likely in the second half of this year.
- > With the local labor market rebounding, rents in Class A units are regaining momentum. Class A asking rents ended the second quarter at \$2,465 per month.
- > **Forecast:** Asking rents are expected to advance 8.5 percent by the end of 2021, reaching roughly \$2,120 per month.

Rent Trends



Year over year, asking rents are up 5.5 percent

Development and Permitting

- > Fewer than 400 apartment units were delivered in the first half of 2021, down from the nearly 1,500 units that came online during the same period last year.
- > Unit deliveries will likely accelerate in the second half of the year, as projects totaling more than 5,300 units are currently under construction.
- > The pace of permitting slowed during the second quarter as developers pulled permits for 720 units, down roughly 50 percent from last quarter. Even after slowing in the second quarter, multifamily permitting in the first half of this year is off to its strongest start since the beginning of 2018.
- > **Forecast:** Multifamily construction is expected to accelerate during the remainder of the year, as roughly 2,200 units are forecast to be delivered by the end of 2021. Construction totals this year will closely track 2020 levels but will be down more than 40 percent from the peak delivery volumes recorded a few years ago.

Development Trends

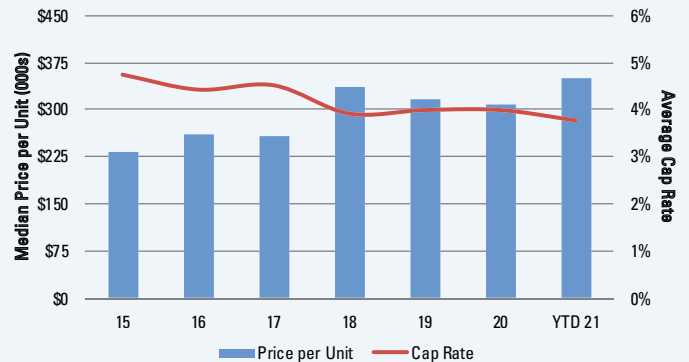


Fewer than 400 apartment units were delivered in the first half of 2021

Multifamily Sales

- > Transaction activity in Orange County held steady through the second quarter, with the number of properties that sold nearly identical to the total from the first quarter. Sales activity peaked at the end of 2020.
- > Sales prices trended higher through the first half of the year, with the median price reaching \$351,200 per unit, up more than 13 percent from 2020.
- > As prices rose, cap rates have compressed slightly year to date. The average cap rate reached nearly 3.8 percent in the first half of 2021, down 20 basis points from last year.

Investment Trends



Sources: NorthMarq, CoStar

The average cap rate reached nearly 3.8 percent in the first half of 2021

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

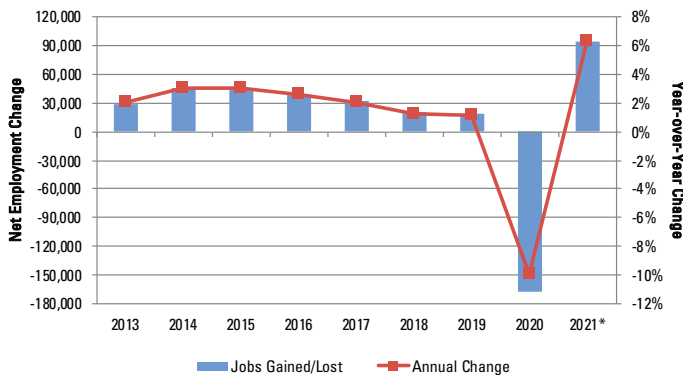
Property Name	Street Address	Units	Sales Price	Price/Unit
Joule La Floresta	420 La Crescenta Dr., Brea	204	\$108,125,000	\$530,025
The Overlook at Anaheim Hills	145 S Festival Dr., Anaheim	261	\$87,500,000	\$335,249
Orange Grove Apartments	200-265 S McCoy Rd., Orange	78	\$22,000,000	\$282,051

Looking Ahead

The first half of 2021 resulted in stabilizing conditions in the Orange County apartment market, setting up a period of stronger growth that is slated to take place in the second half of the year. To this point, new construction has been minimal and absorption has been fairly flat, but both supply and demand are forecast to gain momentum in the second half of the year. Demand will be fueled by a continued recovery in the local labor market, which posted an accelerating pace of growth in the second quarter. The result should be a modest decline in the vacancy rate and additional rent increases.

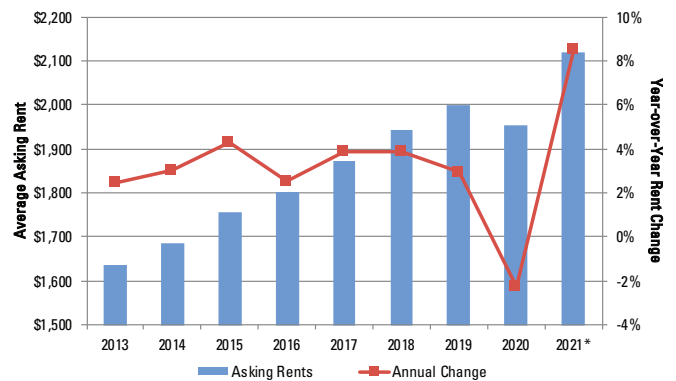
The stability in the local investment market is forecast to continue during the second quarter. Investors will respond favorably to the strengthening local labor market. Gains will likely be concentrated in a few segments of the economy. The first is expected to be the leisure and hospitality segment, where rehiring should strengthen the outlook, particularly in Class B and Class C properties near the tourist areas in and around Anaheim. Additionally, resumed growth among Orange County's high-wage professional industries should support demand in the region's Class A properties, particularly in Irvine, where thousands of high-end units have been delivered in recent years.

Employment Forecast



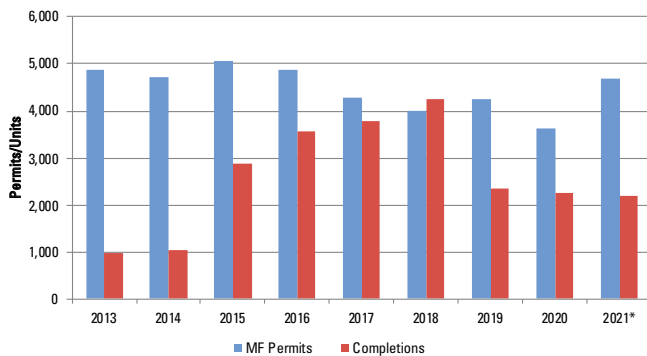
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



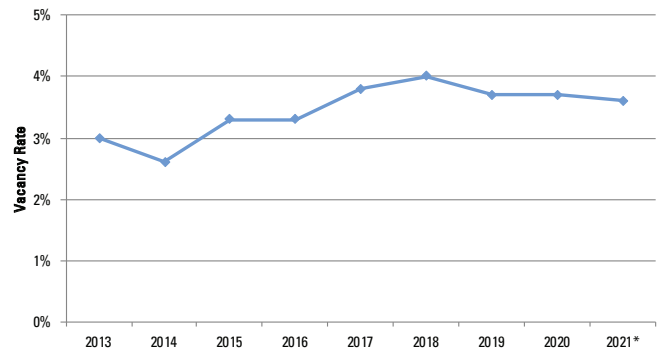
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of more than \$16 billion, loan servicing portfolio of more than \$65 billion and the multi-year tenure of our nearly 600 people.

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