

Class B and Class C properties outperforming

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **6,286**

UNITS DELIVERED (YTD) **669**

MARKET FUNDAMENTALS



VACANCY RATE **3.9%**

YEAR-OVER-YEAR CHANGE **+60bps**

ASKING RENTS **\$2,525**

YEAR-OVER-YEAR CHANGE **2.3%**

TRANSACTION ACTIVITY (YTD)



MEDIAN SALES PRICE PER UNIT **\$390,600**

HIGHLIGHTS

- Multifamily operating conditions in Orange County softened somewhat during the first quarter, mirroring trends that occurred one year earlier. Vacancies ticked higher and rents were flat. The market is poised to strengthen in the coming quarters, repeating the 2023 pattern.
- Rents in Orange County were mostly flat at the start of this year, following three straight quarters of steady gains in 2023. Asking rents averaged \$2,525 per month, up 2.3 percent during the course of the past year.
- Multifamily investment activity in Orange County maintained its recent trajectory during the first quarter. A handful of properties sold at prices that were consistent with values from the past few years. Cap rates showed signs of stabilizing, averaging between 4.5 percent and 5 percent at the start of 2024.
- Vacancy rose 30 basis points in the first quarter after the rate remained within a tight range through most of 2023. Vacancy closed the first quarter at 3.9 percent, up 60 basis points year over year.

ORANGE COUNTY MULTIFAMILY MARKET OVERVIEW

After performing quite well throughout much of 2023, local multifamily properties posted some operational softening at the beginning of this year. Vacancies inched higher, and rents only held steady after three straight quarters of gains. While there was some modest fluctuation at the start of 2024, the Orange County multifamily market continued to record performance that closely tracked the region's long-term trends. Vacancy closed the first quarter at 3.9 percent, only slightly higher than the market's average rate since 2015. With conditions tight, operators are able to either sustain rents or implement modest increases. Construction of new units is accelerating at a modest pace, but Orange County does not face the supply-side pressures that have become increasingly common in many other markets.

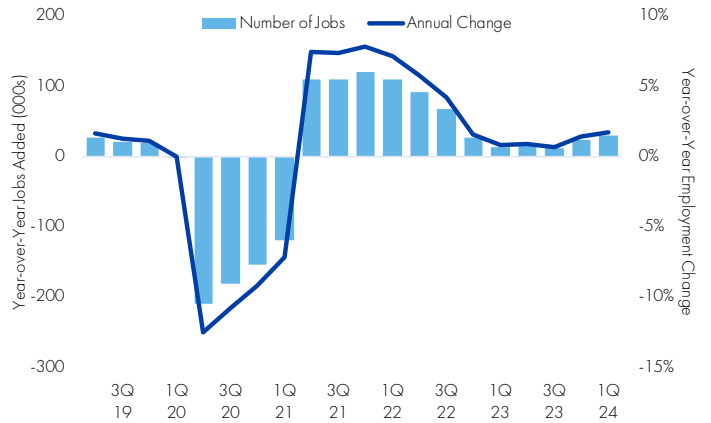
Investment activity in Orange County was slow but steady in the first quarter. The number of properties that sold at the start of the year closely tracked average transaction counts that were posted throughout much of 2023, although recent activity continues to lag peak levels achieved in 2021. In the sales that are occurring, transaction prices are largely holding steady. To this point in 2024, the median sale price in Orange County is \$390,600 per unit, up slightly from 2023 levels and consistent with pricing trends posted in the region for the past few years. Cap rates trended higher in 2023 but appeared to stabilize in the first few months of this year, averaging between 4.5 percent and 5 percent.

EMPLOYMENT

- The economy in Orange County continued to expand at a steady pace in the early months of 2024. During the past 12 months, the local labor market grew by 1.8 percent with the addition of 29,200 jobs.
- The education and health services sector recorded the greatest number of job additions in recent periods. During the past 12 months, employers in this sector expanded payrolls by 6 percent, hiring 15,600 new workers.
- Disney announced that their plans for a nearly \$2 billion expansion to the Disneyland theme park are nearing full approval. This expansion will redevelop a portion of the land Disney currently uses as parking lots into more rides, attractions, and themed hotel space. The redevelopment will create roughly 2,000 jobs.
- **FORECAST:** Employment growth in Orange County has posted consistent gains in recent years and is expected to roughly maintain its current course. Employers are forecast to add approximately 20,000 jobs in 2024, a 1.2 percent increase in local payrolls.

The local labor market grew by 1.8 percent.

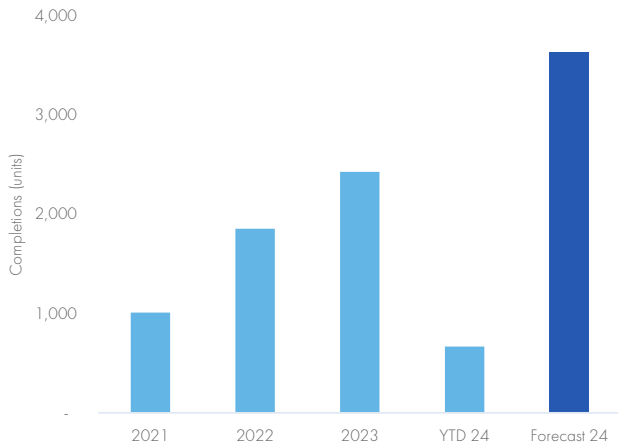
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Permitting has slowed considerably from recent periods.

DEVELOPMENT TRENDS



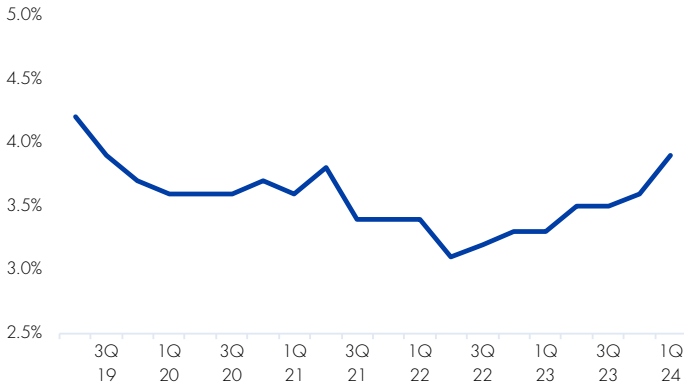
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- New inventory continued to come online at a sustainable pace in Orange County as developers completed more than 650 units in the last three months. Compared to the first quarter of 2023, deliveries are up by 11 percent.
- Projects totaling roughly 6,300 units are currently under construction throughout Orange County, up by 8 percent from one year ago. The city of Irvine still contains the majority of construction in the region, while development in Anaheim has accelerated. In Anaheim, projects totaling nearly 1,000 units are under construction.
- Multifamily permitting has slowed considerably from recent periods as developers have pulled permits for fewer than 250 units so far this year. This is the lowest total of quarterly permitting in more five years. Current permitting levels are down 72 percent from the market's five-year average.
- **FORECAST:** The pace of multifamily deliveries is forecast to pick up in the coming quarters. Projects totaling 3,600 units are expected to come online in 2024, up roughly 50 percent from levels recorded in 2023.

Vacancy rose 30 basis points in the first quarter.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

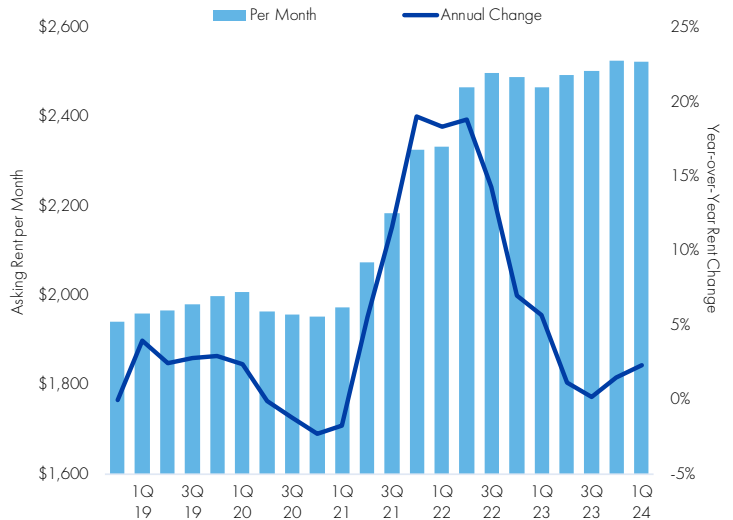
- Vacancy in Orange County rose 30 basis points in the first quarter, reaching 3.9 percent. During the past 12 months, area vacancies increased by 60 basis points.
- Despite some modest quarterly movements, vacancy in Orange County has remained stable for the past several years. The rate has ranged between 3 percent and 4 percent since 2015, averaging 3.6 percent in this time.
- The combined vacancy for Class B and Class C units has inched higher in the past year, but the rate remained quite low. Vacancy in Class B and Class C properties ended the first quarter at 2.6 percent, 20 basis points higher than one year earlier. Class A vacancies reached 5.5 percent.
- **FORECAST:** Multifamily vacancy in Orange County is forecast to end the year at 4 percent, up 40 basis points from the year-end 2023 figure. The rate rose 30 basis points in 2023 after two consecutive years of modest declines.

RENTS

- Rents in Orange County were essentially unchanged from the end of 2023 through the beginning of this year. Asking rents averaged \$2,525 per month in the first quarter. Rents had posted steady gains for the final three quarters of 2023 before leveling off at the beginning of this year.
- Year over year, asking rents in Orange County are up 2.3 percent, down from a growth rate that topped 5 percent in early 2023. Gains in the region's large Class A segment have cooled after approaching \$3,000 per month a few quarters ago. Asking rents in the top tier ended the first quarter at \$2,949 per month.
- Irvine continued to lead Orange County in rent growth despite already having the highest average rents in the region. During the past 12 months, rents in this submarket rose by 3.7 percent to \$3,188 per month.
- **FORECAST:** Rent growth in Orange County will likely gain some momentum through the rest of the year. Asking rents are forecast to rise 2.5 percent in 2024 to approximately \$2,590 per month.

Year over year, rents are up 2.3 percent.

RENT TRENDS



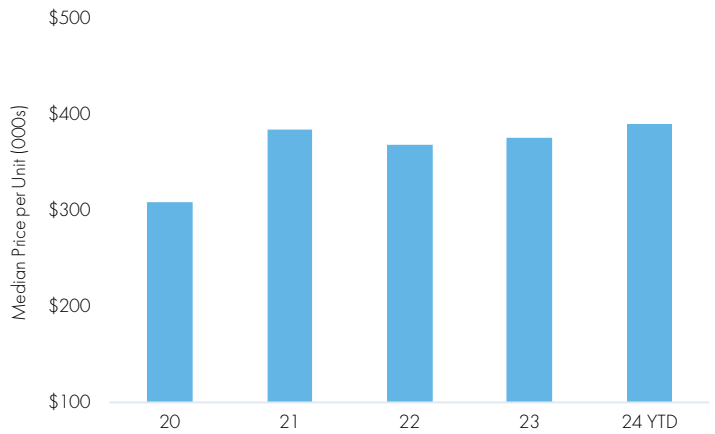
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Multifamily investment sales activity in Orange County was light but steady in the first quarter, with a few large assets changing hands. This followed a year where investment volumes declined by more than 50 percent. Transaction counts in the opening months of 2024 closely tracked quarterly sales totals recorded throughout much of 2023.
- While investment activity remained constant in the first quarter, pricing continued to rise. The median sale price in the past three months was \$390,600 per unit, about 5 percent higher than in 2023. Per-unit transaction prices have remained in a tight range for the past four years.
- Cap rates in Orange County steadied in the first quarter after trending higher through the second half of 2023. Cap rates in the first three months of the year averaged between 4.5 percent and 5 percent.

The median price was \$390,600 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

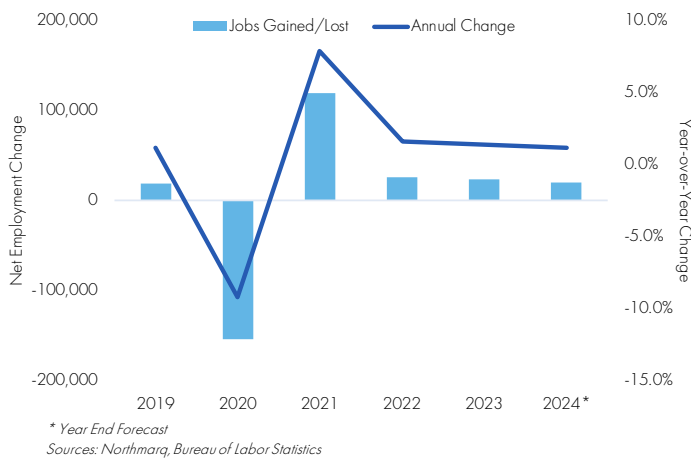
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Regency Palms Apartments	6762 Warner Ave., Huntington Beach	310	\$127,000,000	\$409,677
Chateau De Ville	2020 W Alameda Ave., Anaheim	254	\$79,076,710	\$311,326
Lincoln Estates	6343 Lincoln ave., Buena Park	88	\$34,375,000	\$390,625

LOOKING AHEAD

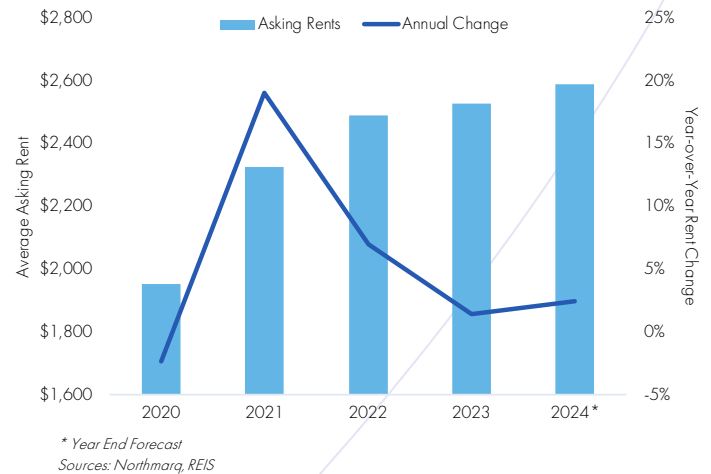
Multifamily properties in Orange County will likely record steady performance in 2024. Renter demand in the area is typically consistent from year to year, keeping vacancy levels tight and allowing for rent increases that generally keep pace with inflation. This year, deliveries are expected to be higher than the recent trend; about 3,600 units will come online, similar to annual averages from 2015-2018. This is expected to result in a modest uptick in vacancy, although much of the forecasted rise already occurred during the first quarter. Still, in most submarkets throughout Orange County, vacancies are unlikely to fluctuate outside of their typical ranges, and rents should creep higher. New deliveries will be concentrated in Irvine and Anaheim, two of the largest employment centers in the region.

Investor sentiment in Orange County is expected to remain positive in 2024, although a few more quarters of limited transaction activity are likely. While cap rates have stabilized, it appears unlikely that they will trend lower to any significant degree, particularly with interest rates stuck in a higher-for-longer holding pattern. Properties that are listed for sale should continue to attract investor attention and trade for elevated per-unit prices. One trend that has yet to emerge thus far in 2024 is the sale of newer properties. Since 2022, sales of newer Class A assets have accounted for approximately 30 percent of total transactions, but recent sales have been concentrated in rental communities constructed in the 1970s and 1980s.

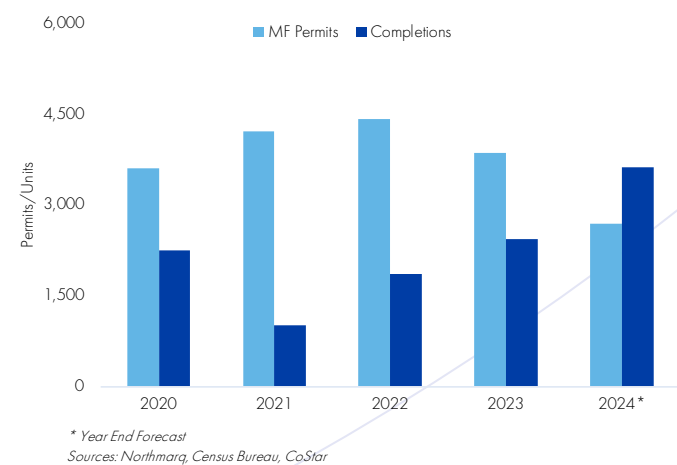
EMPLOYMENT FORECAST



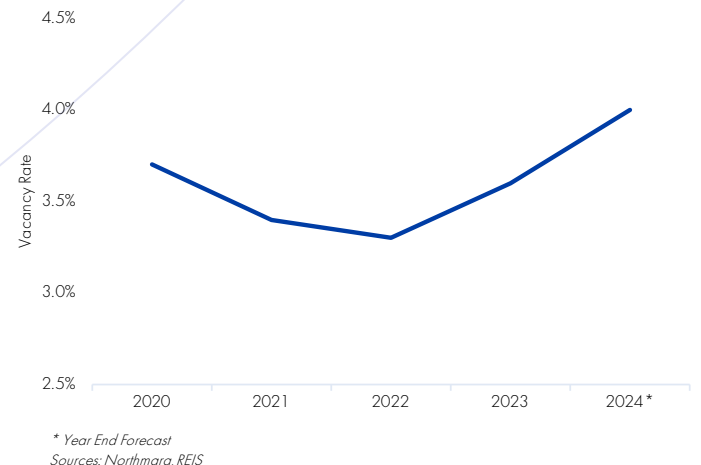
RENT FORECAST



CONSTRUCTION & PERMITTING FORECAST



VACANCY FORECAST





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