

ORANGE COUNTY, CA MULTIFAMILY REPORT

2023 | MIDYEAR

BERKADIA[®]
INSTITUTIONAL SOLUTIONS





ORANGE COUNTY, CA EMPLOYMENT

Jobs Added / Lost

LAST 12 MONTHS

41,900

↑ 2.5%

NEXT 12 MONTHS*

14,500

↑ 0.8%

Unemployment

MIDYEAR 2023

3.2%

↑ 30 BPS YOY

MIDYEAR 2024*

3.2%

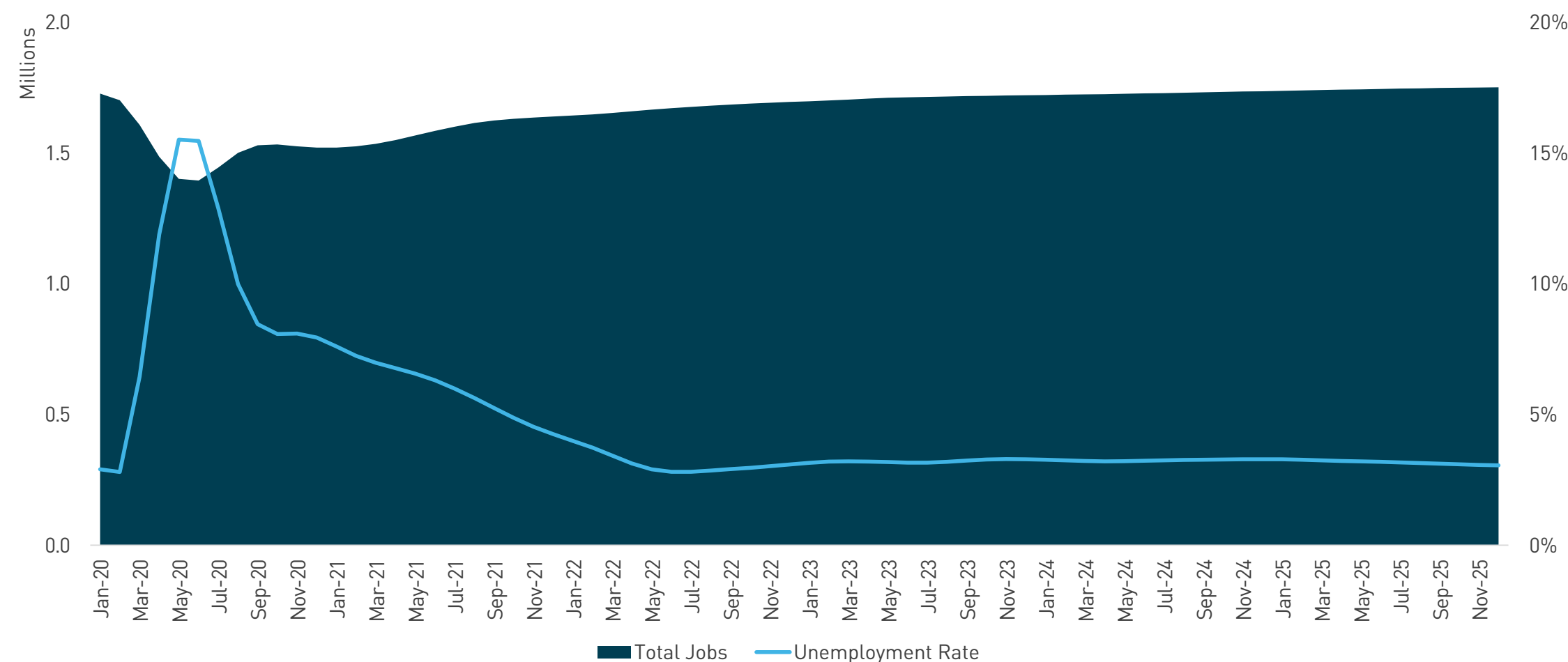
⊖ 0 BPS YOY

*Projected

Nonfarm employment in Orange County totaled over 1.7 million workers in June 2023, 99.2% of peak, pre-pandemic employment in January 2020. In the last 12 months, businesses and institutions added a net 41,900 workers to payrolls, equating to a 2.5% year-over-year gain and matching the national rate of job growth. By year-end 2023, another 7,500 net new jobs are projected to be filled in Orange County. In 2023, job gains are forecast to be greatest in the leisure and hospitality industry, as 8,500 newly created positions are filled. The forecast is supported by the rebound in the county's tourism industry in 2022. Direct travel spending in Orange County totaled nearly \$14.8 billion in 2022, up 36.3% from 2021 and up

2.1% from 2019. Additionally, more than 11.3 million travelers passed through John Wayne Airport in Santa Ana in 2022, up 6.5% from the prior peak in 2018. The private education and healthcare sector is another segment with anticipated expansion in 2023, with 7,500 net new jobs. Over the next several years, the healthcare industry in Orange County will be boosted by the completion of UC Irvine's \$1.3 billion medical complex in Irvine, a \$712 million expansion of Providence Mission Hospital facilities in Mission Viejo and San Clemente, and City of Hope's planned 73-bed, inpatient specialty hospital in Irvine.

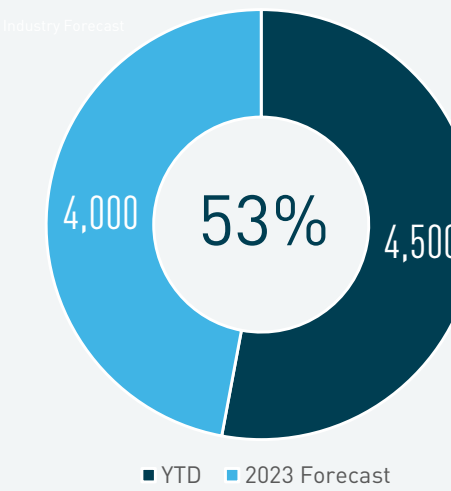
Employment Trends



Source: Moody's Analytics

Who's Hiring?

LEISURE & HOSPITALITY INDUSTRY



14%
OF ALL JOBS IN THE METRO

\$37,200
AVERAGE ANNUAL SALARY

Top Leisure & Hospitality Employers

| | |
|--|-------------|
| | 34,000 JOBS |
| | 4,100 JOBS |
| | 1,200 JOBS |

In The News

- [Dana Point Harbor renovation begins in 2023](#)
- [Construction is underway at \\$1.3 billion UC Irvine hospital complex](#)
- [Providence Mission announces \\$712 million expansion](#)



ORANGE COUNTY, CA DELIVERIES & ABSORPTION

2023 Units*

DELIVERIES

3,003

ABSORPTION

971

2024 Units*

DELIVERIES

3,691

ABSORPTION

3,610

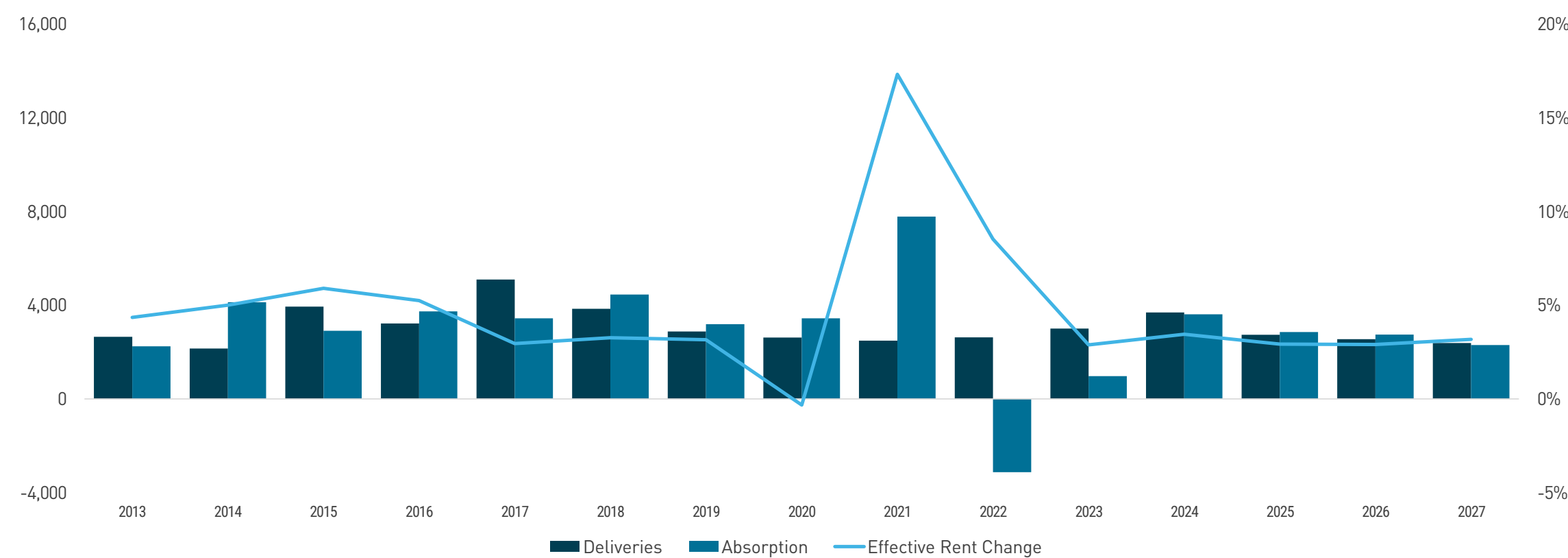
*Projected

Multifamily inventory expansion in Orange County has historically averaged 1.0% annually. Reasons for the modest development are the county's scarcity of developable land and the high cost of real estate. Orange County's measured deliveries have averted pronounced supply imbalances, thereby facilitating average annual rent growth of 4.3% during the last 20 years, 40 basis points higher than the national average annual rate of rent growth during the same period. In the first half of 2023, builders completed 1,146 apartment units in Orange County, and in the last half, 1,857 units are scheduled for delivery. In 2024 and 2025, annual rates of apartment inventory expansion in Orange County are expected to be 1.4% and 1.0%, respectively, considerably lower than the

3.4% and 2.3% nationwide inventory growth projected for those years.

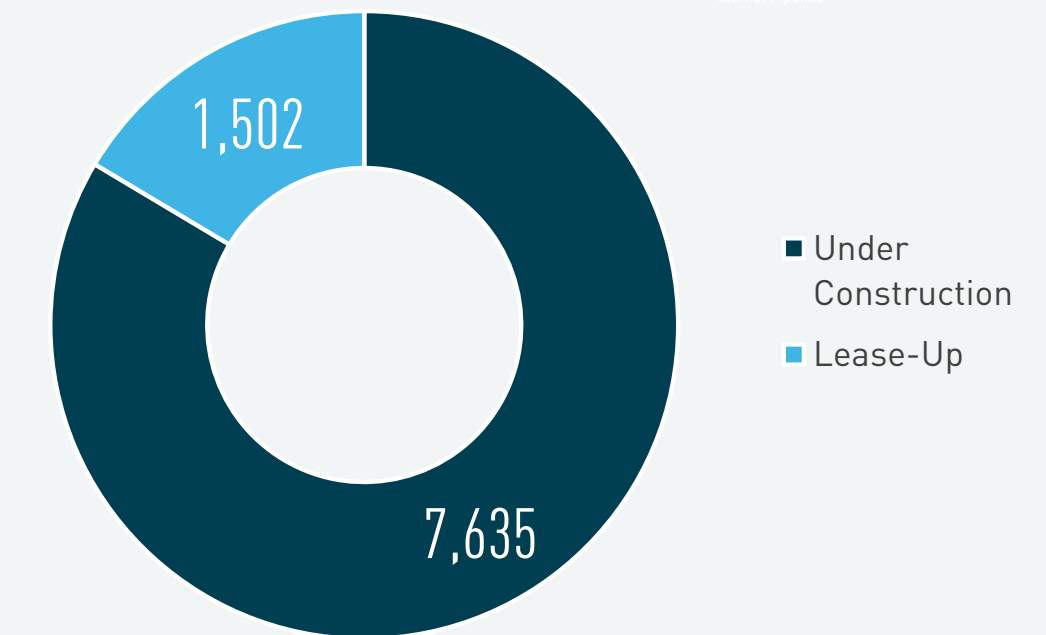
The new lease trade-out rate was significantly higher than the renewal lease trade-out rate in Orange County in the last half of 2022. This environment plus inflationary pressures on households fueled negative net apartment absorption, which continued in the first quarter of 2023. Net apartment absorption turned positive in the second quarter of this year. For 2023, apartment demand is expected to remain positive. In 2024 and 2025, net absorption is projected to approximate the number of apartment deliveries.

Deliveries, Absorption, & Effective Rent Change

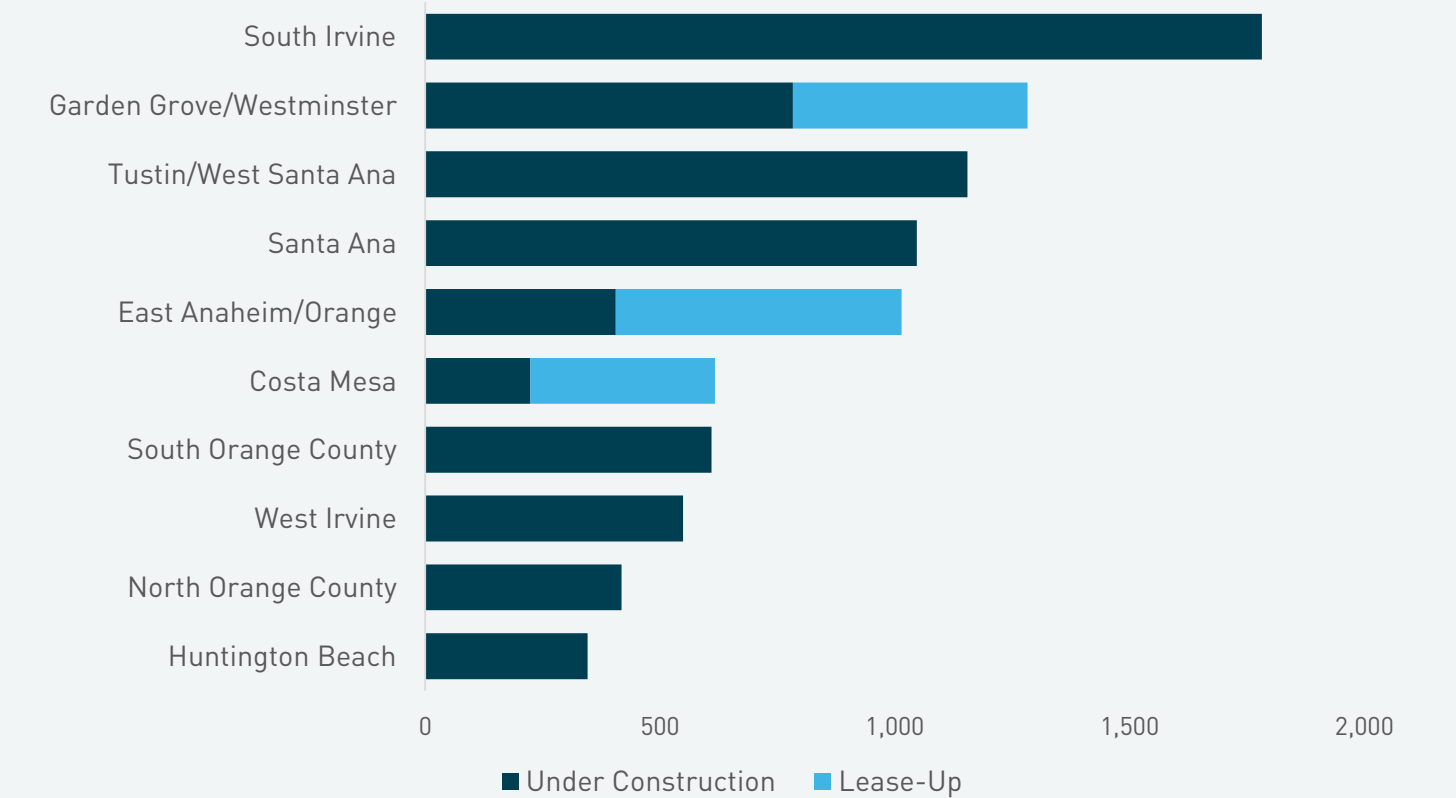


Source: RealPage

Market Pipeline



Top 10 Submarket Pipelines

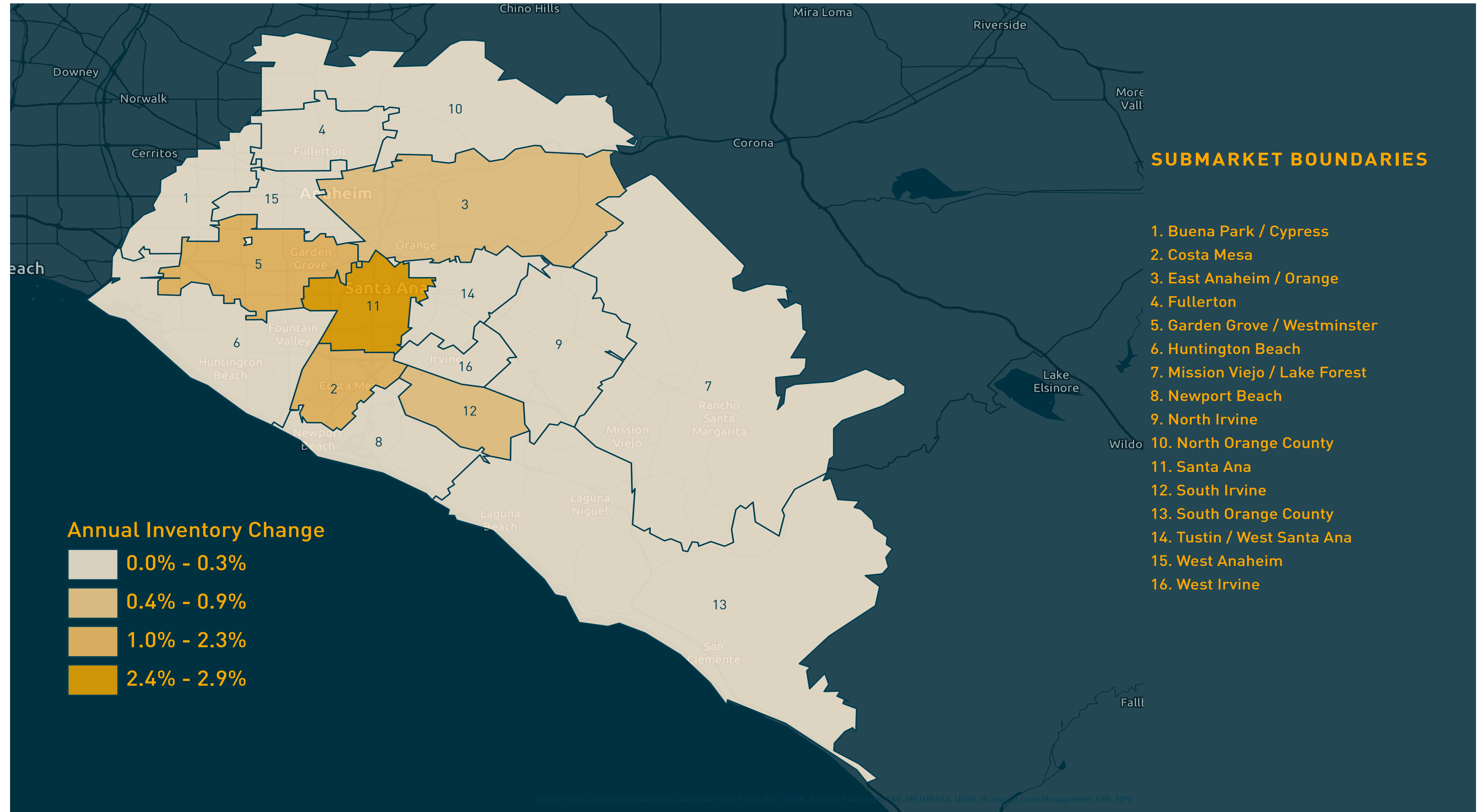




ORANGE COUNTY, CA

SUBMARKET ANNUAL INVENTORY CHANGE

Multifamily developers continue to favor the South Irvine submarket. South Irvine apartments are located in one of the densest employment hubs in the county. Three multifamily developments totaling 1,470 units are under construction in the South Irvine submarket, including the 876-unit Volar mid-rise apartment community. Additionally, the 312-unit Elements IA apartment community is in lease-up and is expected to complete in early 2024. Conscious of the high cost of renting, developers are gradually concentrating new apartment inventory among some of the lower-rent areas in the county that include the Tustin / West Santa Ana, East Anaheim / Orange, Garden Grove / Westminster, and Santa Ana submarkets. Among these areas, the largest of the developments underway is the 603-unit Park on First mid-rise apartment community in Santa Ana that is under lease-up and scheduled for completion in September 2023.





ORANGE COUNTY, CA RENT & OCCUPANCY

Effective Rent

Q2 2023

\$2,738

↑ 2.4% YOY

Occupancy

Q2 2023

96.2%

↓ 190 BPS YOY

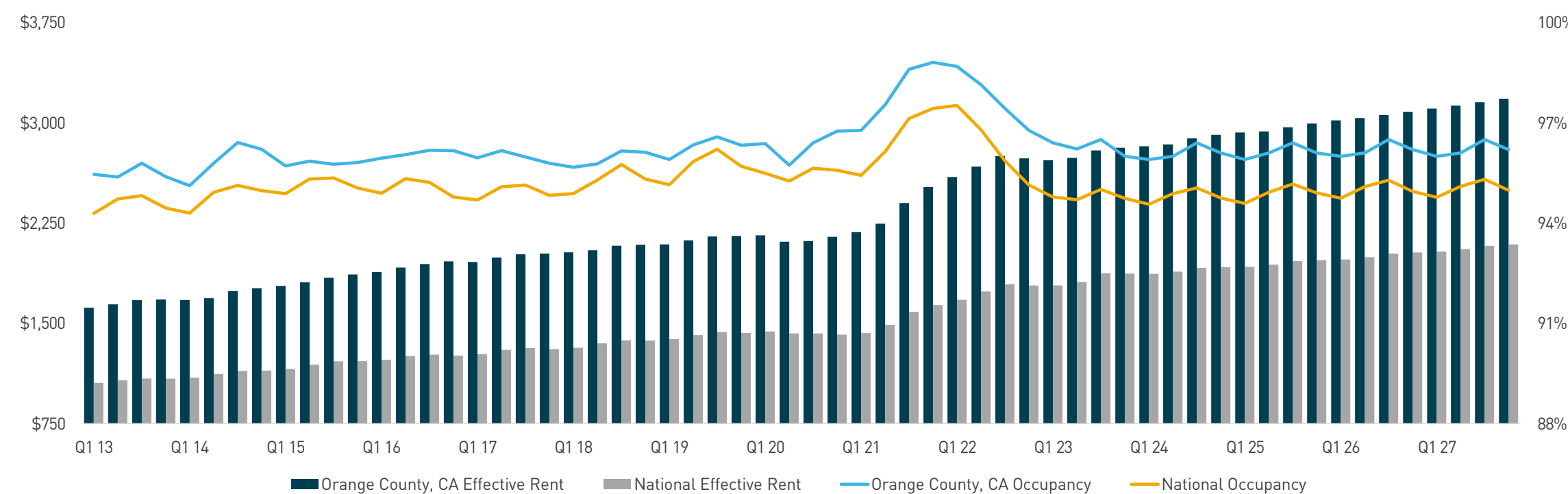
Since the second quarter of 2022, reduced apartment demand in Orange County fueled a 190-basis-point decrease in occupancy to 96.2% in the second quarter of 2023. Even with the decrease, the second quarter occupancy rate was 20 basis points higher than the average occupancy rate in the five years preceding the pandemic. Though Class C occupancy fell the most during the last four quarters, the 97.2% occupancy rate among Class C properties in mid-2023 remained higher than at Class A and B apartment communities. By year-end 2023, overall occupancy in Orange County is projected to be 96.0% and is forecast to be in the high-95%-to-mid-96% range for the next several quarters.

Effective rent averaged \$2,738 per month in Orange County in the second quarter of 2023, a 2.4% annual increase. Because Class C effective rent was 20.3% lower than Class B effective rent in mid-2022, operators had more flexibility in raising rents at some Class C properties. By mid-2023, Class C average effective rent rose 10.2% year over year, compared to a 4.9% gain among Class B properties and a 1.4% increase at Class A apartment communities. Overall, average monthly effective rent is forecast to reach \$2,813 by year-end 2023, a 2.9% annual gain, followed by a projected 3.4% rent increase by end-of-year 2024.

Submarket Performance

| SUBMARKET NAME | Q2 2023 OCCUPANCY | YOY (BPS) | Q2 2023 EFFECTIVE RENT | YOY |
|---------------------------|-------------------|-----------|------------------------|-------|
| Buena Park/Cypress | 97.6% | -130 | \$2,295 | 7.5% |
| Costa Mesa | 96.2% | -210 | \$2,665 | 2.3% |
| East Anaheim/Orange | 95.7% | -230 | \$2,618 | 4.7% |
| Fullerton | 95.1% | -280 | \$2,405 | 3.0% |
| Garden Grove/Westminster | 96.5% | -250 | \$2,322 | 6.6% |
| Huntington Beach | 96.4% | -150 | \$2,808 | 1.9% |
| Mission Viejo/Lake Forest | 96.1% | -170 | \$2,676 | -1.3% |
| Newport Beach | 96.3% | -250 | \$3,364 | 2.2% |
| North Irvine | 97.8% | -70 | \$3,054 | 0.2% |
| North Orange County | 95.4% | -230 | \$2,540 | 4.1% |
| Santa Ana | 95.0% | -250 | \$2,655 | 4.9% |
| South Irvine | 97.5% | -90 | \$3,129 | -0.4% |
| South Orange County | 94.7% | -240 | \$2,969 | -1.4% |
| Tustin/West Santa Ana | 96.5% | -190 | \$2,616 | 4.4% |
| West Anaheim | 96.5% | -250 | \$2,226 | 8.0% |
| West Irvine | 96.7% | -150 | \$2,974 | 0.2% |

Orange County vs. National Effective Rent & Occupancy



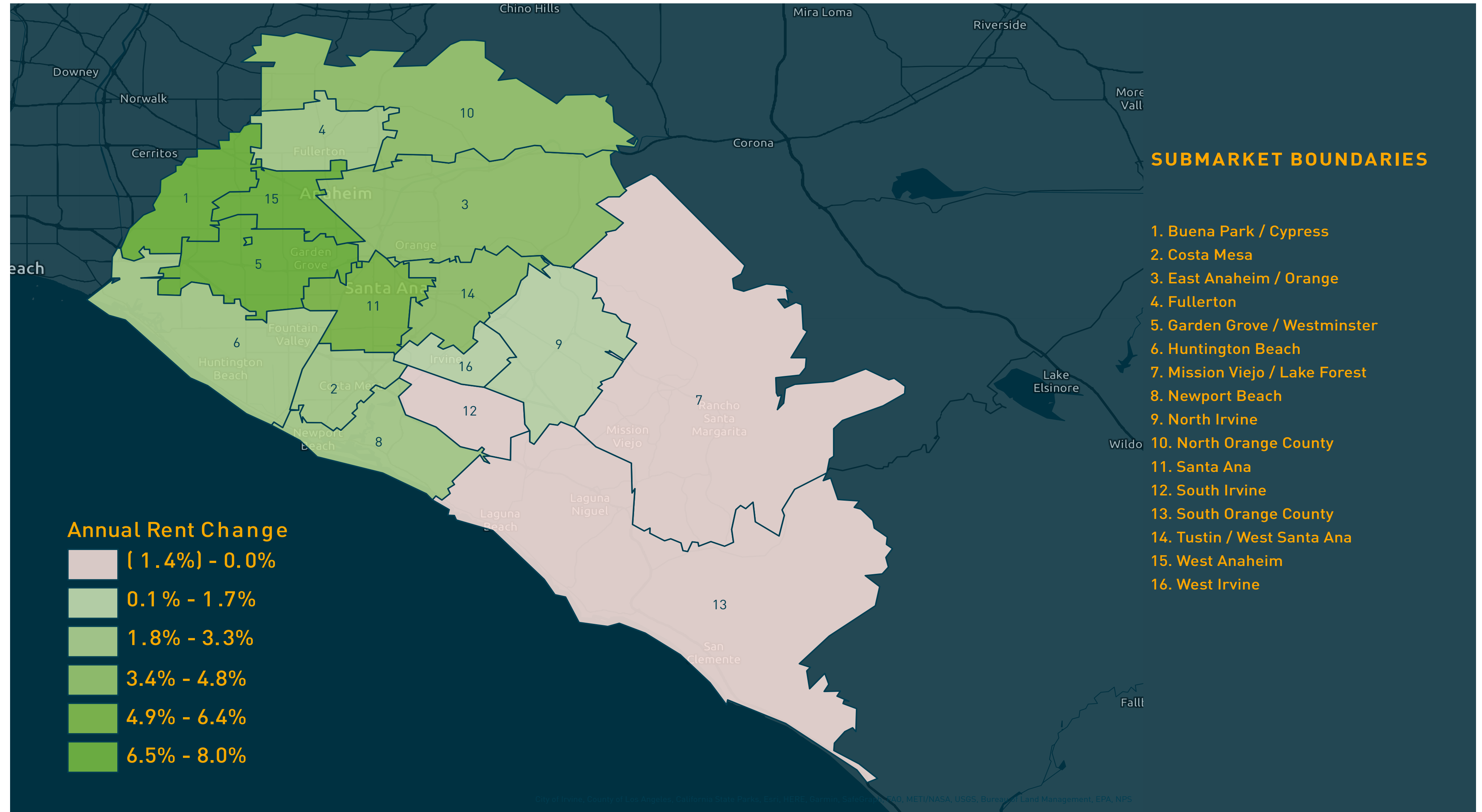
Source: RealPage



ORANGE COUNTY, CA

SUBMARKET ANNUAL RENT CHANGE

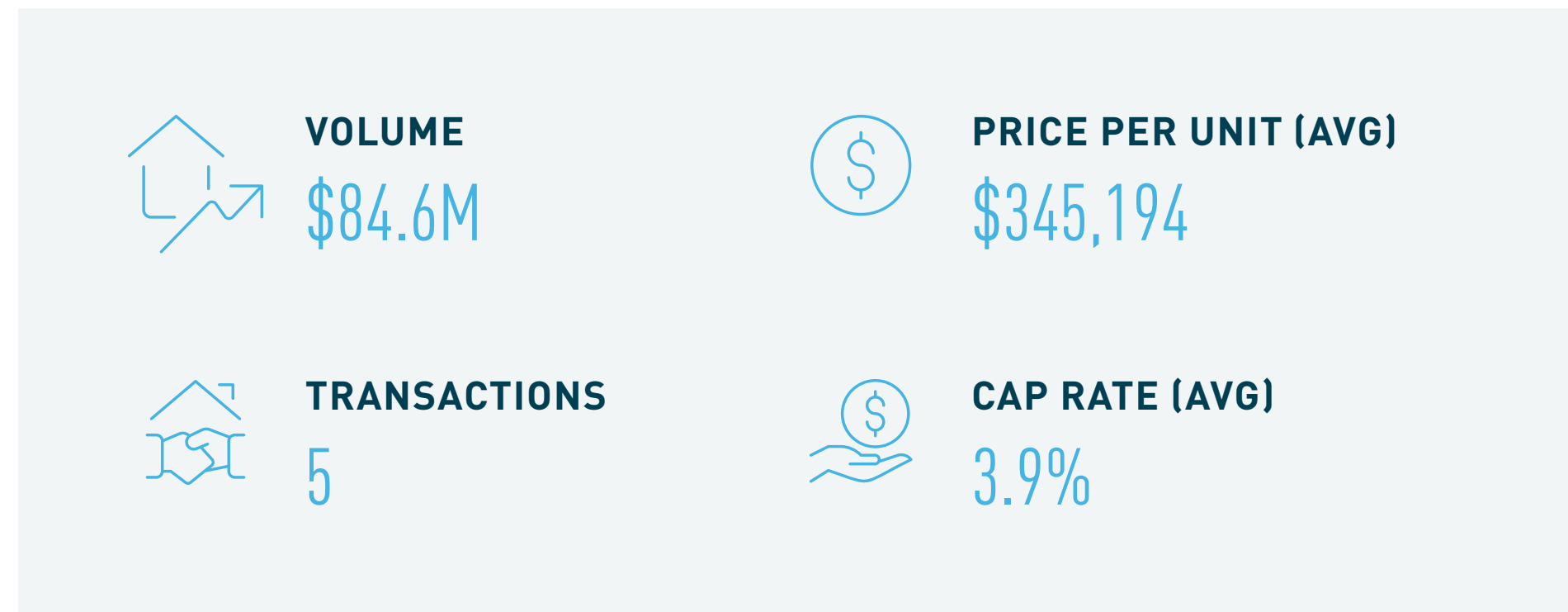
From June 2022 to June 2023, the average rate of change in effective rent was -0.1% among the six submarkets in southern Orange County. This change was a sharp drop from the 20.9% average change in effective rent in those submarkets from June 2021 to June 2022. These areas constitute six of the seven highest-rent submarkets in the county. In the remaining 10 submarkets in the northern half of Orange County, effective rent increased an average of 17.0% from June 2021 to June 2022. In the following period from June 2022 to June 2023, rent growth averaged 4.7% in the 10 northern submarkets. The reason for the much smaller deceleration in rent growth in the 10 submarkets is that these areas have a considerably higher percentage of Class B and C multifamily properties—apartment communities that had considerably greater rent growth than Class A apartments in the last 12 months.



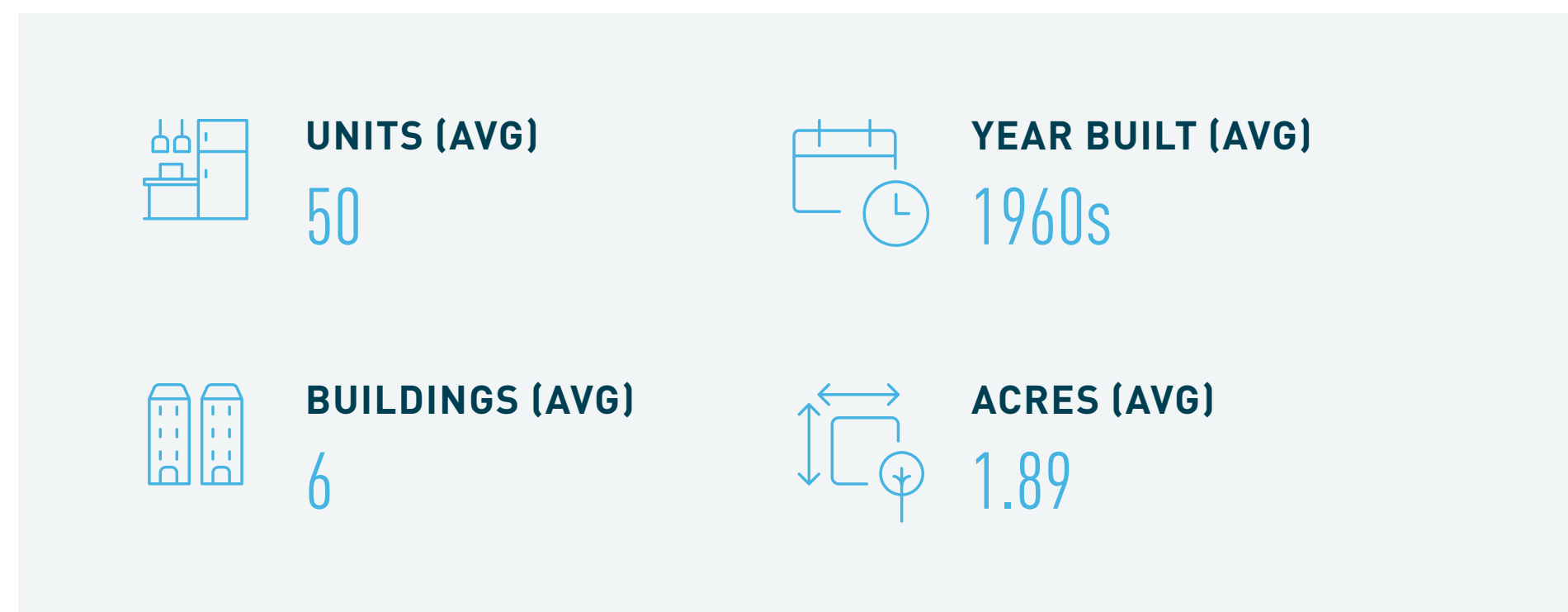


ORANGE COUNTY, CA SALES

2023 Year to Date*



What's Trading?*



Source: Real Capital Analytics
*\$10m+

Top Buyers**

| BUYER | LOCATION |
|--------------------------|-------------------|
| PGIM Inc. | Newark, NJ |
| Bridge Investment Group | Sandy, UT |
| Waterford Property Co. | Newport Beach, CA |
| CSCDA | Walnut Creek, CA |
| Interstate Equities Corp | Los Altos, CA |

Top Sellers**

| SELLER | LOCATION |
|------------------------------------|----------------|
| Fairfield Residential | San Diego |
| JPI | Irving, TX |
| Grand China Fund | Beijing, China |
| MG Properties | San Diego |
| Intercontinental Real Estate Corp. | Boston |

**Past 24 Months



Sources: RealPage; Moody's Analytics; Real Capital Analytics

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