

Multifamily Metro Outlook:

Orange County - Q4 2023

Overview:

- Orange County's economy has been rebounding and is somewhat ahead of California in that recovery. The core of the metro's economic engine is well-paying professional & business service jobs that account for large portion of the area's jobs, well above national levels, and all of these jobs have returned. However, Orange County is home to a significant tourism sector (headlined by Disneyland and Knott's Berry Farm) which has reopened, but activity levels remain behind levels prior to the outbreak, especially for business and convention travel, though these components of travel may further rebound in 2024.
- Strong economic and apartment market conditions attracted developers prior to Covid, and the metro's apartment market was poised for some easing as good, but not exceptional, demand was slightly outweighed by a generous supply of new units. The market has robustly rebounded, with exceptionally low vacancy rates and unprecedented rates of rent growth, but the rebound began to ease in late 2023, with further softness likely in early 2024.
- Housing affordability remains a significant concern in the metro area. Home prices remain unaffordable to three-quarters of the metro's population. The area's soft job growth prior to COVID was partially attributable to this affordability: while there were many employers seeking new hires, not enough workers wanted to move to the metro due to the high cost of living and housing.

Market Strengths:

- Low vacancy rates have persisted for many years, never going above 6% in the last 10 years and historically staying below 5%. Indicators all point to long term demand for multifamily rental housing, especially given the high cost of single-family housing.
- Job growth in Orange County was solid in 2023, with 2.5% growth. The metro is forecasted to see above average job growth over the next five years, with Moody's estimating annual growth of +0.5%, compared to +0.3% nationally.

Market Weaknesses:

- Population growth in 2023 was +0.6%, underperforming the national average of +3.1%. Forecasts indicate that the population may see a slight contraction through 2027, which will be driven by the unaffordability of housing.
- The cost of housing in Orange County is so high that many of the new employees must find housing outside of Orange County, limiting the impact of a strengthening job market on the local apartment market.

Development:

- Nearly 21,300 apartment units have been completed since the start of 2017, and another 6,590 units are currently underway. The relatively modest level of condo development in Orange County is not a significant threat to the supply of rental housing in the metro. The primary concern for the metro is the supply of existing single-family homes for rent, though this concern is minor considering the exceptionally high prices of single-family homes in the metro.

Outlook:

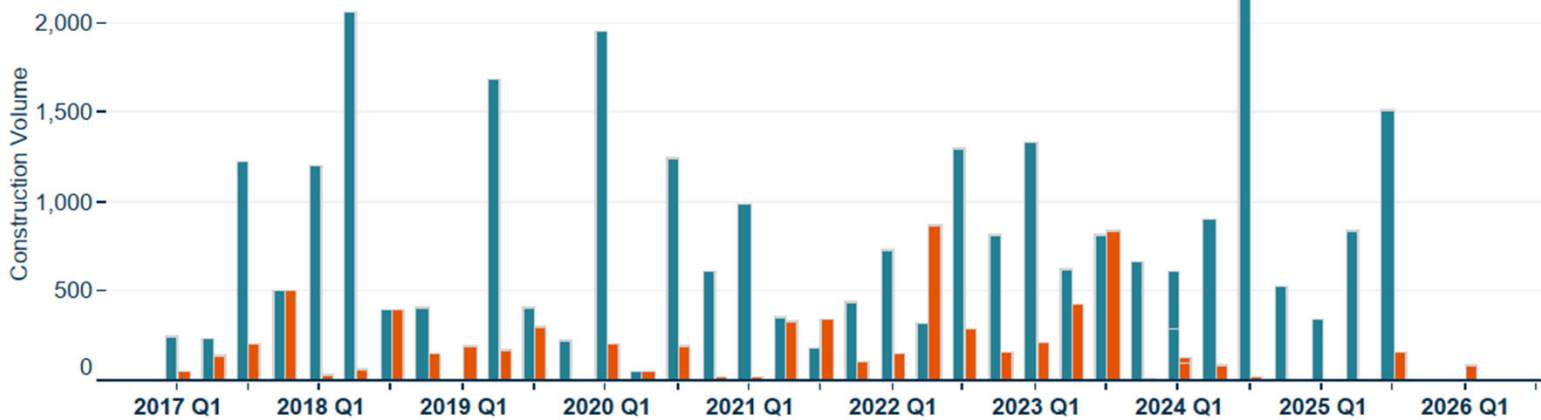
- The metro's rental market was poised for modest easing prior to the COVID outbreak, but it had exceptional demand in 2022 and early 2023, but conditions have softened. With the expected recovery of the metro's job market nearly complete, the apartment market should return to being quite healthy compared to the nation and other parts of Southern California, though some brief periods of negative fundamental measures may occur after the recent rebound subsides. Despite pending inventory additions, over the long-term Orange County still will likely need a significant number of new rental units to satisfy its expected growth and make housing in the area more affordable.
- Orange County is a world-class destination metro, with several economic engines, including low paid tourism jobs and highly paid professional and business services jobs. Its attractiveness is also one of its most important weakness: the desirability of living in the metro has resulted in it being a very expensive place to live, work, and do business. COVID temporarily stalled the economic engines, but the foundational industries aren't going anywhere in the near-term, and Orange County is very likely to continue growing economically, albeit it at a slower pace than the national average.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

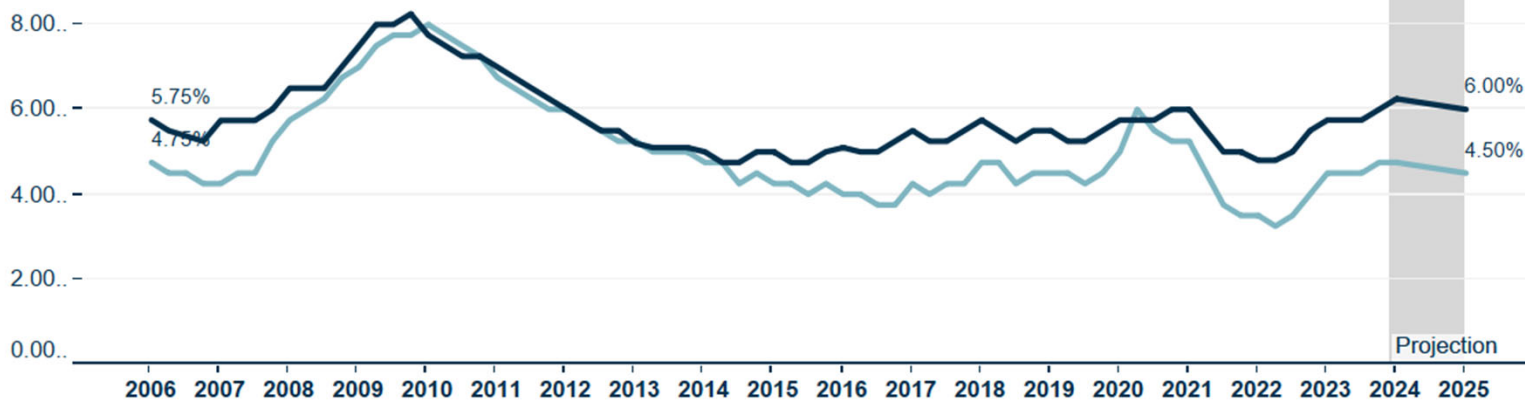
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Orange County | National

Q4 2023 Vacancy Rate:

4.75%

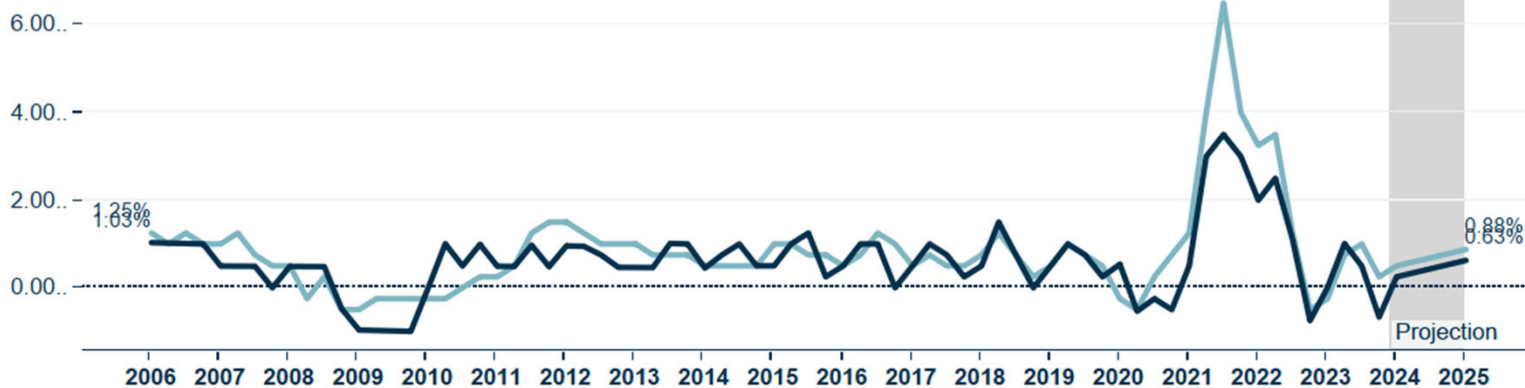


Asking Rent Growth

Orange County | National

Q4 2023 Asking Rent:

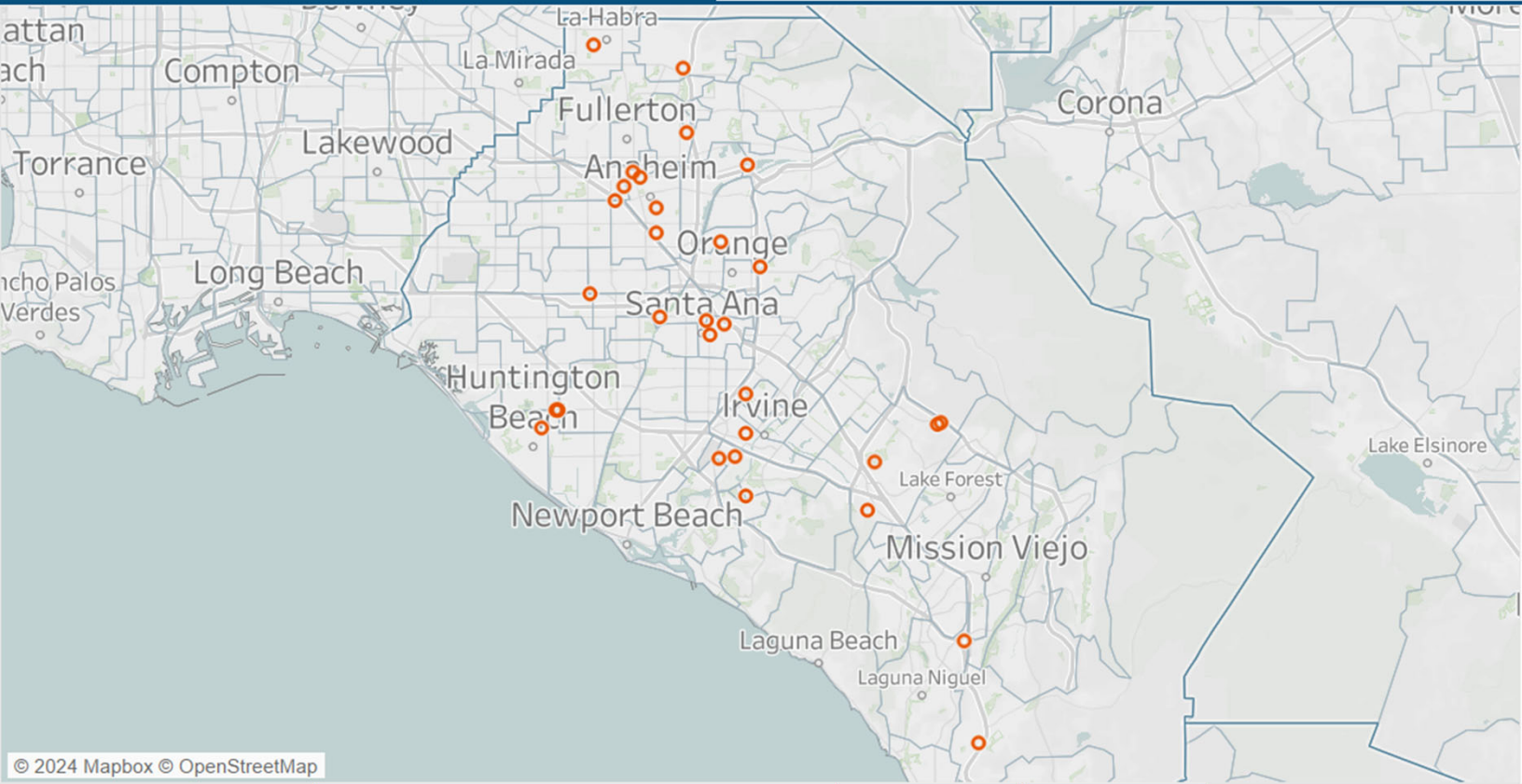
\$2,500



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



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MultiHousingSubmarketName	Apartments	Units
East Anaheim/Orange	5	608
Fullerton	1	377
Garden Grove/Westminster	1	460
Huntington Beach	4	357
Mission Viejo/Lake Forest	1	9
North Irvine	3	369
North Orange County	2	410
Santa Ana	4	437
South Irvine	3	1,169
South Orange County	2	359
Tustin/West Santa Ana	1	1,110
West Anaheim	4	554
West Irvine	1	371
Grand Total	32	6,590

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- Moody's CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Greenstreet
- Dodge Data and Analytics SupplyTrack Pipeline
- CBRE-Econometric Advisors
- Yardi

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