Multifamily Metro Outlook

Orange County CA – Fall 2019

Overview

- Orange County's rental market recovered nicely from the Great Recession due to limited development and steady job numbers. These previously strong conditions attracted developers, and the metro's apartment market is poised for some easing as good, but not exceptional, demand is slightly outweighed by a generous supply of new units.
- Housing affordability, for both renting and homeownership, is a significant concern in the metro area. The area's recently weaker job growth is partially attributable to this affordability: While there are many employers seeking new hires, not enough workers want to move to the metro due to the high cost of living and housing. New employees often have to find housing outside of Orange County, limiting the impact of the strong job market on the local apartment market.
- Low vacancy rates have persisted for many years, never going above 6 percent in the last 10 years and historically staying below 5 percent. Rents had grown at over +4 percent annually prior to the Great Recession. Indicators all point to long-term demand for multifamily rental housing, especially given the high cost of single-family housing.
- Population growth in the year-ending Q2 2019 was 0.3 percent, underperforming the national average of 0.7 percent. Forecasts indicate that population growth will continue to be slightly below average through 2023.
- Job growth in Orange County has returned, though it has slowed due to a limited number of job seekers: The metro added +18,000 jobs in the year-ending Q2 2019, increasing +1.0 percent, compared to +1.5 percent nationally.
- Orange County has a disproportionate dependence on national and local housing conditions. Not only does the metro have a high concentration of construction jobs (6.4 percent of jobs, compared to 4.9 percent nationally), but a significant portion of professional and financial jobs in the metro are (or were) related to mortgage finance, specifically sub-prime financing — many of which will likely never be regained by the metro.

Development

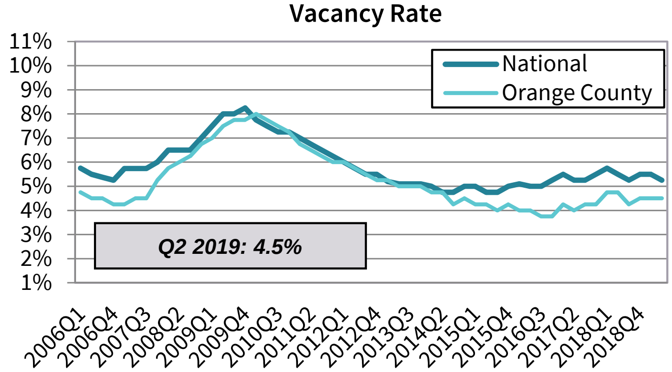
- Nearly 17,500 apartment units have been completed since the start of 2014, and another 3,800 units are currently underway. Since the beginning of 2006, around 8,800 condo units were completed, though fewer than 500 condo units are underway and due to be delivered through 2020. The relatively modest level of condo development in Orange County is probably 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 sale or for rent.

Outlook

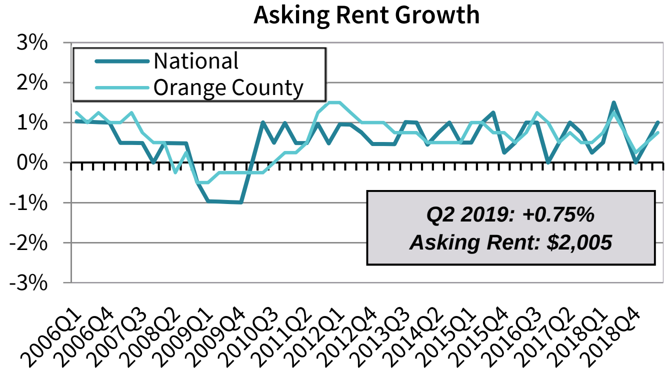
- The metro's rental market will likely see some easing soon as the supply of new units is likely to be marginally greater than the demand for them. However, with the stability of the metro's job market, the apartment market should remain quite healthy compared to that of the nation and other parts of Southern California. Despite recent inventory additions, Orange County will still probably need a significant number of new rental units in the long-term 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. The region's 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. But its foundation industries aren't going anywhere soon, and Orange County is very likely to continue growing economically, albeit at a slower pace than the national average.

Vacancy and Rent Composite Estimates

Vacancy Rate

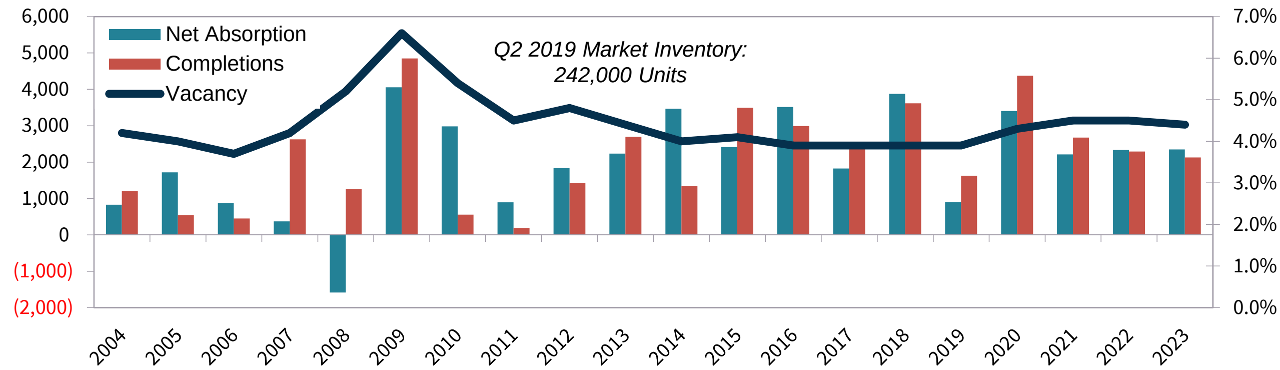


Asking Rent Growth

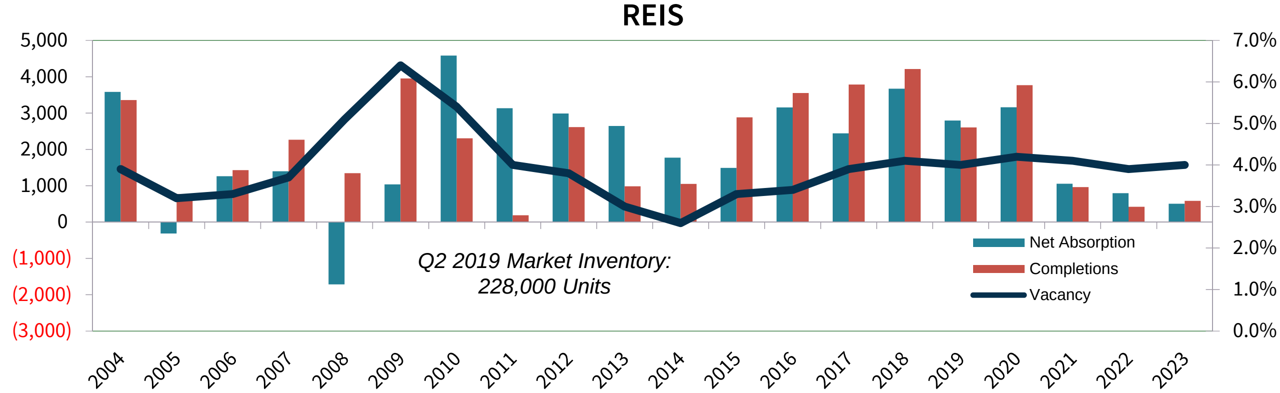


Source: Fannie Mae Multifamily and Economics Research

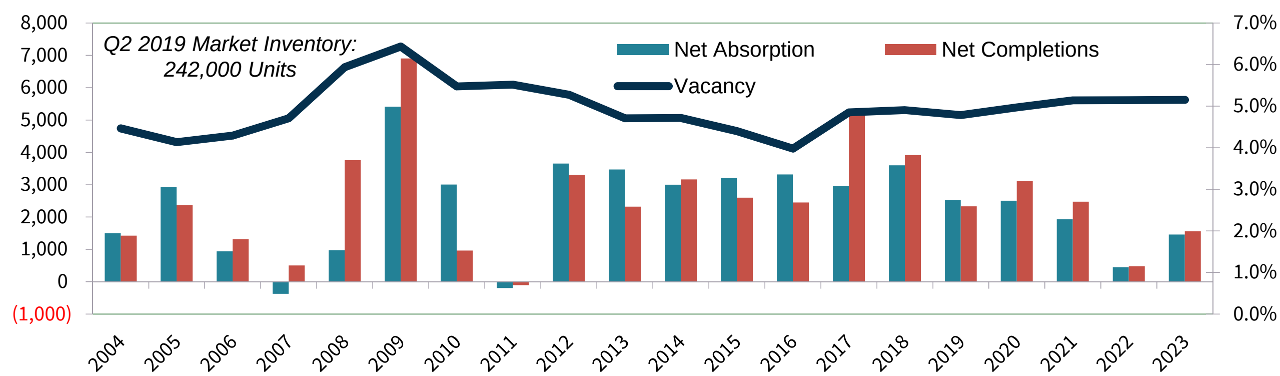
CBRE-EA



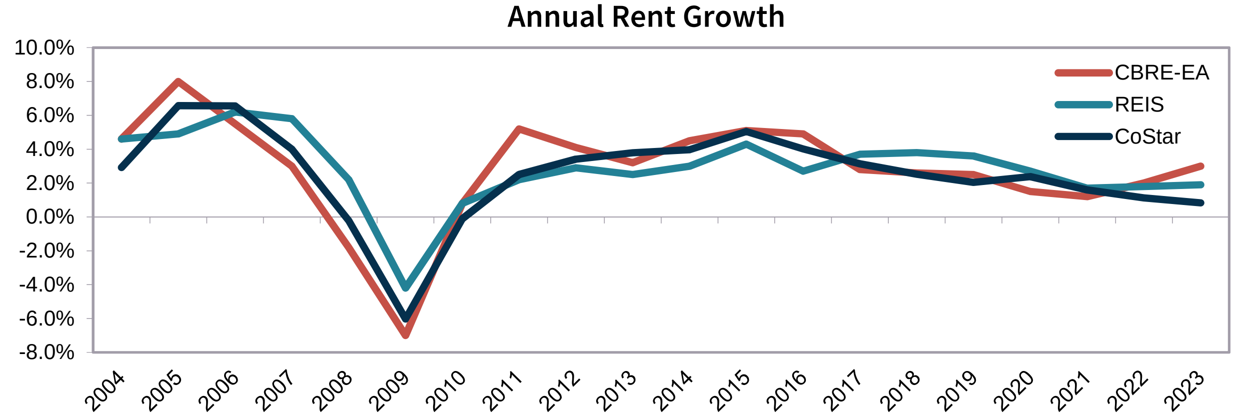
REIS



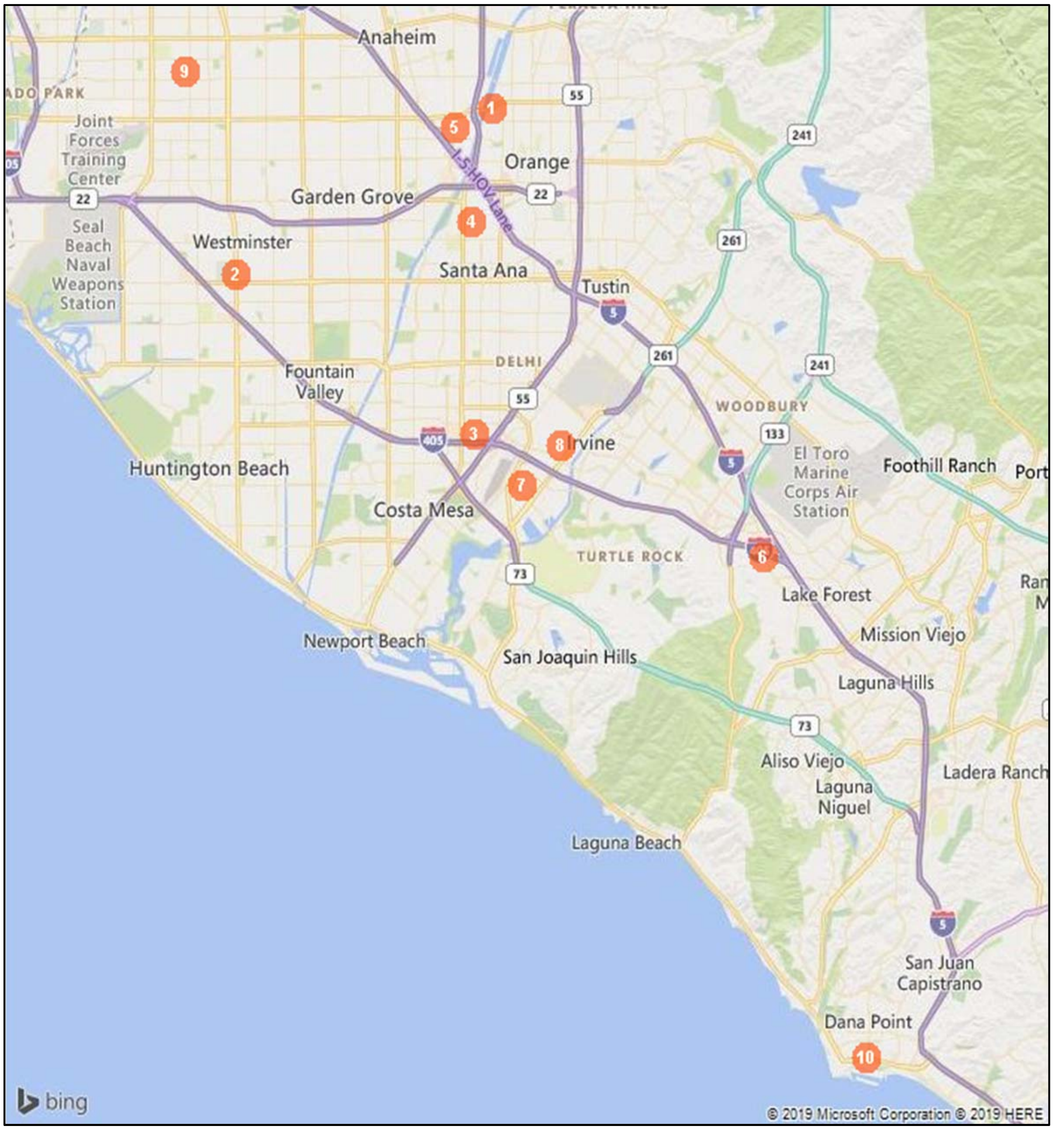
CoStar



Annual Rent Growth



Construction Bidding/Underway
(10 projects/4,100 Units/4.6 M Sq. Feet)



CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
Buena Park	1	24	19
Irvine	3	2475	2608
Laguna Beach/Dana Point	1	79	39
North Santa Ana	1		
Orange	1	112	94
South Anaheim	1	1627	1079
South Santa Ana	1	265	222
Westminster/Fountain Valley	1	38	50

Source: Dodge Data & Analytics SupplyTrack

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Fannie Mae Multifamily Economics and Research
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Sources Used

- CBRE-Econometric Advisors
- Bureau of Labor Statistics
- Census Bureau
- CoStar
- Dodge Data & Analytics SupplyTrack
- Moody's Analytics
- Real Capital Analytics
- RealPage
- Reis, Inc.