Overview

Orange County’s rental market recovered nicely from the Great Recession due to limited development and steady job numbers that provided solid apartment demand. The admirably strong conditions have attracted developers, and the metro’s apartment market is poised from some easing as good, but not exceptional, demand is likely to be moderately outweighed by a generous supply of new units.

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.

However, the cost of housing in Orange County is so high that many of the new employees have to find housing outside of Orange County, limiting the impact of the strong job market on the local apartment market.

Job growth in Orange County has returned, though it has slowed in 2017: the metro added +12,000 jobs in the year ending Q2 2017, increasing 0.8 percent, compared to 1.6 percent nationally. Population growth in the year ending Q2 2017 was 0.4 percent, underperforming the national average of 0.8 percent. Forecasts indicate that population growth will continue to be slightly below average through 2021.

Orange County has a disproportionate dependence on national and local housing conditions. Not only does the metro have a high concentration of construction jobs, 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

Over 15,600 apartment units have been completed since the start of 2012, and another 6,000 units are currently underway. Since the beginning of 2006, around 7,200 condo units were completed, though fewer than 750 condo units are underway and due to be delivered through Q4 2018. 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 sale or for rent.

Outlook

The metro’s rental market will likely see some near term easing as the supply of new units is likely to be marginally greater than the demand for them. However, with the strength of the metro’s job growth, the apartment market should remain quite healthy compared to the nation and other parts of Southern California.

Despite recent inventory additions, Orange County still will probably need a significant number of new rental units to satisfy its expected longer term growth. Little of this inventory is currently underway, just 23 projects with 6,000 units currently under construction, but enough supply should soon move from planning stages to approach meeting expected demand. Were economic prospects brighter for Orange County, and California overall, the apartment market would probably be heading toward a period of tightening.

Vacancy and Rent Composite Estimates

Source: Fannie Mae Multifamily and Economics Research

© 2017 Fannie Mae. Trademarks of Fannie Mae.
Q2 2017 Market Inventory:
- CBRE-EA: 235,000 Units
- REIS: 220,000 Units
- CoStar: 228,000 Units

Annual Rent Growth

CBRE-EA
REIS
CoStar
Construction Bidding/Underway
(23 projects/6,000 Units/7.0 M Sq. Feet)

<table>
<thead>
<tr>
<th>CBRE-EA Submarket</th>
<th>Number of Projects</th>
<th>Total Sq Ft (000’s)</th>
<th>Total Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fullerton</td>
<td>1</td>
<td>62</td>
<td>36</td>
</tr>
<tr>
<td>Huntington Beach</td>
<td>1</td>
<td>516</td>
<td>516</td>
</tr>
<tr>
<td>Irvine</td>
<td>9</td>
<td>2260</td>
<td>2149</td>
</tr>
<tr>
<td>Laguna Beach/Dana Point</td>
<td>2</td>
<td>154</td>
<td>116</td>
</tr>
<tr>
<td>North Anaheim</td>
<td>1</td>
<td>220</td>
<td>220</td>
</tr>
<tr>
<td>North Santa Ana</td>
<td>3</td>
<td>381</td>
<td>388</td>
</tr>
<tr>
<td>South Anaheim</td>
<td>5</td>
<td>3448</td>
<td>2605</td>
</tr>
<tr>
<td>Westminster/Fountain Valley</td>
<td>1</td>
<td>8</td>
<td>16</td>
</tr>
</tbody>
</table>
Opinions, analyses, estimates, forecasts, and other views of Fannie Mae's Multifamily Economics and Market Research (EMR) group included in this commentary should not be construed as indicating Fannie Mae's business prospects or expected results, are based on a number of assumptions, and are subject to change without notice. How this information affects Fannie Mae will depend on many factors. Although the EMR group bases its opinions, analyses, estimates, forecasts, and other views on information it considers reliable, it does not guarantee that the information provided in these materials is accurate, current, or suitable for any particular purpose. Changes in the assumptions or the information underlying these views could produce materially different results. The analyses, opinions, estimates, forecasts, and other views published by the EMR group represent the views of that group as of the date indicated and do not necessarily represent the views of Fannie Mae or its management.