VIEWPOINT

2023 ORANGE COUNTY, CA MULTIFAMILY ANNUAL REPORT

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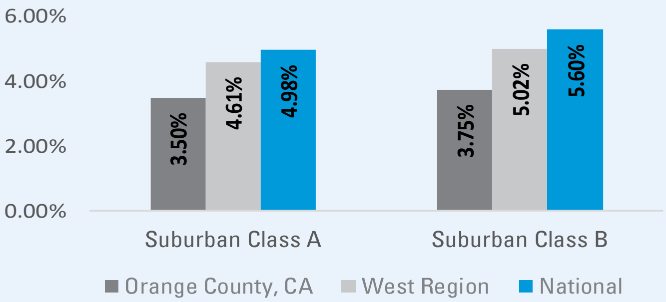
Cap Rate Indicator (Y/Y)

	Class A	Class B
Going In Cap Rate (%)	◀▶	◀▶

Going In Cap Rate Comparisons (%)



Change In Value Next 12 Months

+/- 0%

Suburban Class A

+/- 0%

Suburban Class B

Forecasts

Orange County, CA 12-Month Multifamily Forecasts

Categories	Suburban Class A	Suburban Class B
Going-In Cap Rates	Remain Steady	Remain Steady
Discount Rate	Remain Steady	Remain Steady
Reversion Rate	Remain Steady	Remain Steady
Market Rent Change	+1.00%	+3.00%
Expense Rate Change	+4.00%	+4.00%
Years to Balance	In Balance	

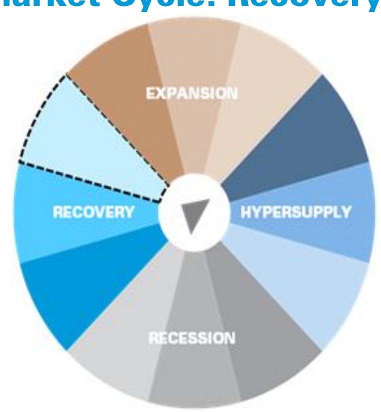
Orange County, CA 36-Month Multifamily Forecasts

Categories	Suburban Class A	Suburban Class B
Change in Value	▲5%-9.9%	▲5%-9.9%

Orange County, CA Multifamily Market Overview

With an average vacancy of 3.2%, Orange County apartments reflect solid dynamics for rent stability and investor demand. In the prior 12-month period, rents have increased at an annual rate of 3.7%, but have tapered off in recent months as inflation and high-interest rates have slowed movement in pricing and rent growth. After reaching a high of 18% growth in 2021, the rate of growth is shrinking back to more modest levels. In the Class B and C multi-family tier, vacancy is even lower; hovering around 2%. Demand is driven by lower monthly rents and the fact that the average home in Orange County is now over $1,000,000. These strong but more modest trends are not expected to change in 2023 as home ownership is increasingly out of reach in the County and low vacancy continues to limit the choices for renters. Few units have been added to the market in 2022. REIS projects that 932 units will be added to the market by the end of 2022 and net absorption will be a positive 779 units. 4,560 units are forecasted for completion by the end of 2024, resulting in a very slight increase in vacancy in 2023 and a fall back to around 3.5% in 2024. Demand has fallen somewhat in the more expensive areas in South Orange County and Irvine, moving north and east to the more affordable areas of the County. Thanks to a robust 18.2% growth in rents during 2021, the 5-year average for rent growth in Orange County was 5.7% annually. REIS reports an average asking rent of $2,499 per month, book-ended by a $1,792 rent for a Studio unit and an average rent for a three-bedroom unit at $3,090 monthly. Rents increased by 0.5% in September 2022. While demand remains strong, the historical housing ratios of 30% to 40% are pushing 50% in some markets; the threat of further inflation and a possible recession is expected to tamp down rent growth in 2023 and 2024. Concessions are common in new developments but disappear when the project reaches stabilized occupancy. Sale prices on investor properties now exceed $500,000 per unit, though most sales have been in the $250,000 to $400,000 price range. The volume of sales slowed in the latter half of 2022, as interest rates climb. Investors are warier of paying top-of-the-market prices under the cloud of continuing inflation that could bring on a recession. Cap rates are thought to have bottomed out at the end of 2022, but are not expected to increase in the next two years due to the tight rental market and overall demand. One of the trends being seen in the multi-family market is the re-positioning of former regional mall space to redevelop as multi-family properties. The former Laguna Hills Mall has approvals for 1,500 units, Main Place -Santa Ana will see 309 units soon, and Bella Terra in Huntington Beach will add 300 units by year-end.

Market Cycle: Recovery Stage 3



- Decreasing Vacancy Rates
- Neg/Low Rental Rate Growth
- Low/Moderate Employment Growth
- Low New Construction
- Moderate Absorption

Integra Realty Resources - Orange County

2151 Michelson Drive, Suite 205, Irvine, CA 92612, 949-591-8147

J. Richard Donahue, MAI, Senior Managing Director, rdonahue@irr.com