Why Orange County Multifamily Housing Continues to Be One of the Hottest in the Country

By Barry Saywitz, President of The Saywitz Company

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The multifamily housing market in Orange County continues to be one of the hottest in the country. The economic growth in the region combined with a shortage of housing and expensive real estate prices in general causes a continued upward movement in the multifamily market.

Cap rates for multifamily housing and apartment buildings have continued to decrease dramatically over the last six months and will continue to remain at record low levels. Previous cap rates in the 5.5 percent to 6.5 percent cap rate have dropped to some of the lowest levels that we have seen historically. The lack of good available product in the apartment market has caused cap rates to dip below 5 percent and as low as 4 percent for coastal product.

With interest rates continuing to be at an all time low and financing readily available for this type of product, the combination of lack of supply, increased demand and inexpensive financing all make for a remedy for expensive prices for the multifamily market.

Investors looking to acquire properties for multifamily in Orange County have had a difficult time due to the lack of supply. Additionally, now that money is now being moved away from other investments such as the bond market and stock market back into real estate combined with more activity from the 1031 exchange buyers, has caused increased bidding and demand for good quality available product. The shelf life of a listing on the open market has decreased dramatically purely due to the laws of supply and demand. Additionally, outside investors from the Middle East and Asia are looking to invest in Southern California real estate, which creates additional demand. These types of investors have less regard for cap rates and pricing per door and are more focused on moving their money outside of their native country and investing in a good quality area with upside potential and long-term growth. These outside investors have a different mentality and formula for purchasing property and are typically paying for these properties with all cash. This makes it even more difficult for the local or mom and pop investor to compete with those types of buyers.

As for rents in the apartment market, the decrease in vacancy overall in the apartment market continues to put upward pressure on apartment pricing. With vacancy at less than 3 percent overall in the market, the demand for the housing market has pushed rents up significantly. Average increases in monthly rent countywide were 4 percent to 5 percent. However, coastal regions and South Orange County experienced rental increases in the 6 percent to 10 percent range from a year ago. While there are several large new developments for apartments particularly in the John Wayne Airport area and in Anaheim, the overall demand for apartments far exceeds the amount of available units.

This increase demand for apartments stems from several factors. The first is the millennial or young professional segment of the marketplace. These individuals have no desire to own real estate and therefore will proceed to rent in the future. They are willing to pay extra for good quality housing and there are increasing percentages of these individuals in the marketplace. Secondly, there is a segment of the housing for the potential homeowners who have yet to fully recover from the downfall of the real estate market or who have fears of re-living that same scenario and elect to continue to rent until they are in a better financial position or have a better comfort level for their investment. The third segment of the market would be those individuals which have recently sold their home at increased prices and have no desire to purchase a new property at the moment. Therefore, this segment of the market will rent for some period of time to assess the market and their own housing needs. All of these factors continue to put upward pressure on rents. In many instances, there are multiple prospects for the same unit and the landlord will have the opportunity to pick the best qualified tenant based on ability to pay, credit, etc. In many instances, landlords are now charging additional rent for pets, trash and other services and have the ability to scrutinize a potential renter’s credit, income and payment history much more so than they were able to do in the past.

There are few signs of any easing of pricing or that demand from residents and buyers for apartments will diminish in the short term.

Risks for investors will be increased in interest rates and potentially ease in demand for these types in the future. However, for the short term, expect the multifamily market in Orange County to continue to be one of the hottest in the country. While this makes Orange County an expensive place to live and even more expensive place to own apartment buildings, the combination of the weather, work environment and the prospect of continued appreciation in the future, will continue to drive the market upward.