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Forecasts See Mixed View of Apartments

By [Bob Howard](#)

ORANGE COUNTY-This county's multifamily market may remain healthy compared with the national average, but the economy and other factors present challenges and vulnerability that provide a contrast to the good times of just a few years ago. Those are some of the outlooks and conclusions in research reports and forecasts from companies like Marcus & Millichap, RealFacts and Hendricks & Partners, which track the county's apartment market.

Marcus & Millichap says that the Orange County economy is expected to remain vulnerable to the strains in the housing market and the financial sector during the next several quarters, with one result being that after a 1.4% increase in the vacancy rate, the county's vacancy will increase 90 basis points to 5.9% by year-end 2009.

But rents will nonetheless rise, according to the forecast, which explains that the considerable gap between the cost of renting and the cost of owning in this expensive coastal county is allowing for continued rent growth. This year, owners will boost asking rents by 2.9% to \$1,634 per month, while effective rents are expected to increase 2.3% to \$1,574 per month. The difference between asking and effective rents has to do with free rent and other concessions that landlords are offering to attract tenants.

RealFacts pegs the average Orange County apartment rent at \$1,578 across the county at the end of 2008, a decline of slightly more than 1% from the Novato-based company's survey results a year ago. RealFacts tracks 489 apartment complexes totaling 123,902 units in the county, or an average of 253 units per property. The RealFacts properties therefore tend to be larger complexes and institutional properties, where rents tend to be higher than those in some of the smaller, mom-and-pop-owned complexes.

Hendricks & Partners points out that Orange County is "considered the epicenter of the subprime mortgage meltdown." The recession "is forcing more apartment tenants to double up," the Phoenix-based company says, with renters taking on roommates to help cut costs. That, in turn, is reducing apartment demand, particularly for one-bedroom, one-bath units, Hendricks points out. As a result, landlords have been forced to offer more concessions and keep rent increases to a minimum, its report notes.

Although Marcus & Millichap sees solid fundamentals in the county as a whole, it also sees "supply threats" in places like the Irvine and South Anaheim submarkets, where 1,600 new units and 1,000 new units, respectively, are slated to be completed in 2009. Additionally, a greater number of unsold condos have come to market recently as high-end apartments, including the 250-unit Avalon Anaheim Stadium project in the Platinum Triangle. " This trend could become more pronounced if the local housing market continues to slump," the report points out.

The upshot for investors is that Orange County's apartment buyers "are expected to shift from short-term value-add investors anticipating rapid price growth to those with a renewed focus on long-term fundamentals," Marcus & Millichap forecasts.

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