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BIZ BUZZ

BUSINESS NEWS FOR NEWPORT BEACH

Riding the Coastal Rental Wave

BY BARRY SAYWITZ | SPECIAL TO THE NB INDY

As the economy continues to recover, and the residential real estate market rides the current wave of increased demand and reduced supply, the results of these conditions have put increased pressure on the rental and apartment market in Newport Beach, as well as throughout Orange County.

Research shows that apartment rents in Orange County have increased between five and nine percent in the last year.

Rents continue to be on the rise, and expectations for rental increases over the next 12 months will be in the same range, with higher end rental markets and coastal markets experiencing the highest increases.

Newport Beach, and the coastal cities surrounding it, would certainly fall into the category of higher end.

And, due to the lack of new development and a robust sales market, the rental market for homes, townhouses, condos and apartments will become difficult for those looking to rent an affordable place, and for those who have leases that are expiring.

The rental market for single family homes has become significantly more expensive as seasonal renters, corporate transplants and out of state and foreign visitors choose to rent homes and apartments as part of either their transition or split time here in Orange County.

Lack of new construction is just one reason why apartment rents are so high in Newport Beach.

Another reason is that new construction for apartments, both in Irvine and the surrounding areas, are all at escalated rents because these apartments are new, and to a large degree, controlled by major players in the apartment market, like the Irvine Company and several REIT's and institutional investors.

What does this mean for those who are looking to rent a property near the coast? It means that you will need to look harder, start further in advance and you will have less opportunities available to you.

For those who are serious about renting, a good recommendation would be to make sure that you have all of your personal information, income verification and credit information available, so that you can apply for a property and provide it to a property manager or owner immediately without delay. Those who are well poised to move quickly will have better chances to secure a place to rent, as many opportunities have multiple applicants looking at the unit or property.

Those renters who are looking for short term solutions for month to month, summer rental, monthly rental or a six month lease will certainly pay premium for the flexibility to have a shorter term lease arrangement.

For landlords, turnover is a cost and therefore in a tight market, their preference would be to secure a lease at a favorable rent to insure stability for the property.

If you are a good tenant with stable income and good credit, you should make a better deal, or have a better opportunity to rent a place than those who have less secure income or marks on their credit. While rents have jumped significantly and are expected to continue to do so, the rental prices are still significantly less than the cost of homeownership, due to high sale prices of residential housing in Newport Beach and the coastal areas.

The other issue becomes quality of the property. Clearly a clean, well maintained and modern property should, and will, command a premium over an older property which may not be maintained as well.

Tips for renters should include making sure that you are comfortable with your landlord. Larger, well healed landlords, who maintain their properties, and have staff available for tenant's needs, will make your tenure at the property much easier. The "mom and pop" landlord, who is not equipped to deal with maintenance and wishes not to spend time or money to fix up their property, may offer cheaper rents, but you will obviously be exposed to risk and may pay for it in the long run.

Cap rates for investment property and multifamily housing in Newport Beach and the coastal areas are at an all-time low. Recent reports show that these properties are selling as low as a three percent cap. This is due to the lack of available product, and



Bermuda Dunes rental property

the amount of 1031 exchange money chasing fewer deals combined with foreign investment in the area.

While those returns seem very thin, the opportunity for appreciation in the coastal markets presents the greatest opportunity for increased value.

Additionally, there is greater stability in coastal real estate rather than the risk of fluctuations and volatility in the stock or bond market, and therefore, individuals who have chosen to diversify their investments have

decided to acquire real estate even though the prices seem expensive.

Since interest rates are still extremely low, these trends will continue. For owners of multifamily properties, you will continue to see increased rents and values, at least for the short term.

For those looking to acquire multifamily or investment properties in the coastal areas, you will pay a premium, and will have limited opportunities.

For those renting multifamily properties or residential income properties, be advised that it does require a premium to live in an affluent area.

Be prepared to look harder and have fewer opportunities than what was available to you in the past.

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Please visit saywitz.com for more information.