

Article for Newport Beach Independent

Column by Barry Saywitz for quarterly updates on real estate market

**LOOKING FOR A PLACE TO RENT IN NEWPORT BEACH – OPTIONS ARE SCARCE AND EXPENSIVE.
WHAT DOES THE FUTURE HOLD?**

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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.

By many statistics the apartment rents market overall in Orange County has increased between 5% – 9% in the last year. Rents are continuing 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 because of the lack of new development, and a robust sales market, the rental market for homes, townhouses, condos and apartments becomes extremely 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 for apartments in the City of Newport Beach does not create any new inventory, and the new construction for apartments both in Irvine and the surrounding areas are all at escalated rents, based on the fact that they are new product, 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? What this means is 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 6 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 the high pricing 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 who your landlord is. Larger, well healed landlords, who maintain their properties, and have staff available to do so, will make your tenure at the property much easier and should there be any issues with regards to maintenance or repairs they should be addressed quickly. The “mom and pop” owner, who is not equipped to deal with maintenance, and the owner who wishes not to spend time or money to fix up their property, may be cheaper, but you will obviously be exposed to risk and may pay for it in the long run.

Cap rates for investment property and multi-family housing in Newport Beach and the coastal areas are at an all-time low. There have been reports of property selling with as low as a 3% cap. This is due to the lack of available product, 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 put their money into real estate even though the prices seem expensive.

With interest rates still extremely low look for these trends to continue. For owners of multi-family properties, you will continue to see increased rents and values, at least for the short term. For those looking to acquire multi-family or investment properties in the coastal areas, you will pay a premium, and will have limited opportunities. For those renting multi-family properties, or residential income properties, be advised that it does require a premium to live in a nice area and at a nice property. Be prepared to look harder and have less opportunities than have been available to you in the past.

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