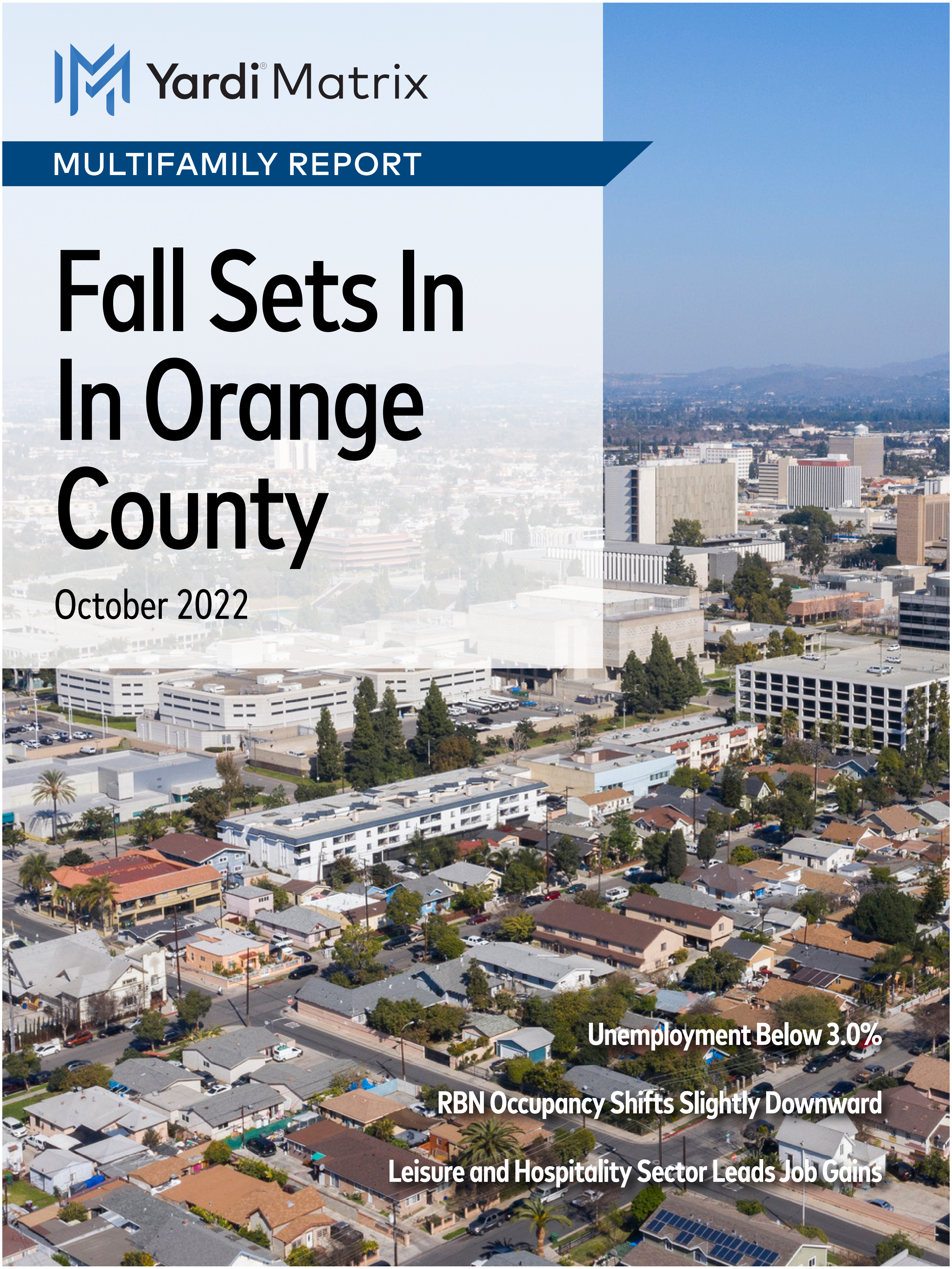
Yardi Matrix

MULTIFAMILY REPORT

Fall Sets In In Orange County

October 2022



Unemployment Below 3.0%

RBN Occupancy Shifts Slightly Downward

Leisure and Hospitality Sector Leads Job Gains

ORANGE COUNTY MULTIFAMILY

Yardi Matrix

Market Fundamentals Slowly Cool Down

Orange County's recovery continued well into 2022, but current economic conditions are affecting the multifamily market. Rent growth moderated to 0.5% on a trailing three-month basis through August, to $2,721, with the Renter-by-Necessity segment leading gains. The average occupancy rate in stabilized assets shifted down 30 basis points year-over-year as of July, to 97.4%, pointing to a still-tight rental market.

The unemployment rate in Orange County stood at 2.8% in July, a solid improvement from 4.2% in January, according to preliminary data from the Bureau of Labor Statistics. The rate placed it behind only San Francisco (2.5%) among California's major metros and ahead of the state (3.9%) and the U.S. (3.5%) rates. The employment market added 78,800 jobs in the 12 months ending in June. Just one sector contracted—financial activities lost 1,000 positions. The ongoing recovery of the leisure and hospitality sector (37,600 jobs) led gains, boosted by the rebound of conventions and tourism.

Developers added 1,232 units through August and had 8,400 underway. Compared to last year's corresponding interval, figures show a drop in both construction starts and deliveries. Meanwhile, investment remained high, with the volume surpassing $1.2 billion as investors traded mostly RBN assets. The per-unit price marked a 13.7% year-over-year increase, to $434,025 in August.

Market Analysis | October 2022

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Recent Orange County Transactions

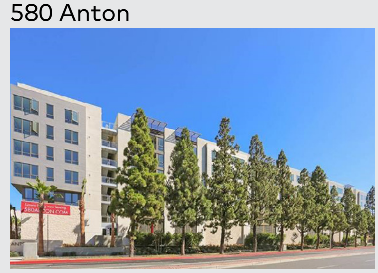
Madison Park

City: Anaheim, Calif.
Buyer: Bridge Investment Group
Purchase Price: $284 MM
Price per Unit: $369,141

310 Jefferson

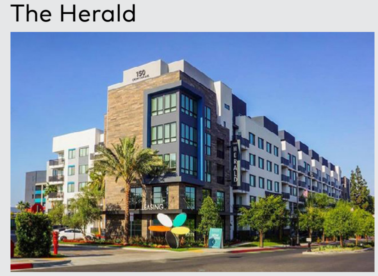
City: Placentia, Calif.
Buyer: Prime Group
Purchase Price: $180 MM
Price per Unit: $432,692

580 Anton



City: Costa Mesa, Calif.
Buyer: Rockwood Capital
Purchase Price: $172 MM
Price per Unit: $688,800

The Herald

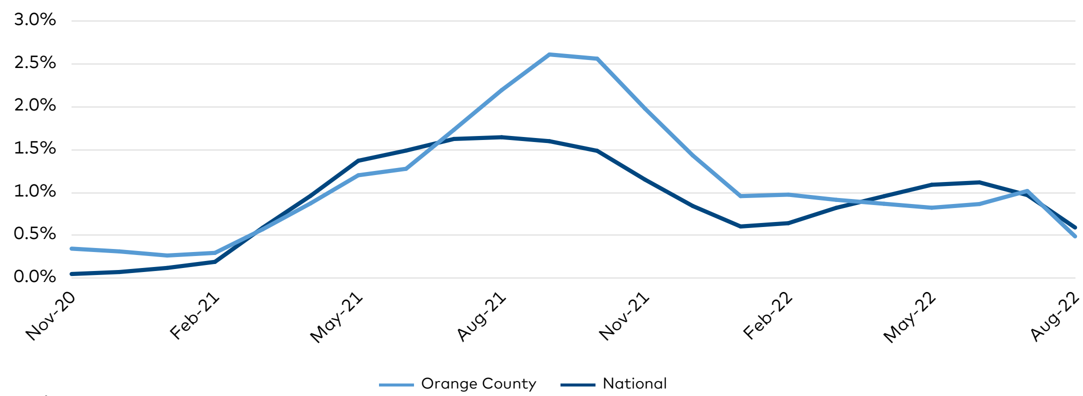


City: Placentia, Calif.
Buyer: MG Properties Group
Purchase Price: $130 MM
Price per Unit: $605,000

RENT TRENDS

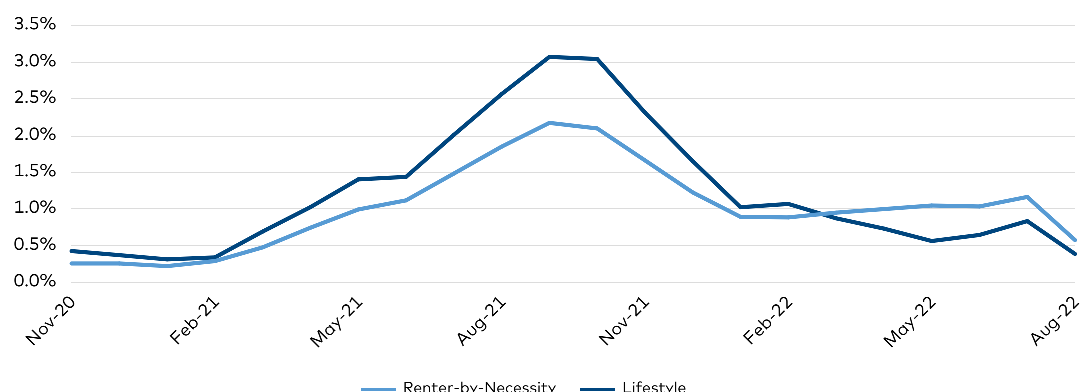
- Orange County rent growth softened to 0.5% on a trailing three-month (T3) basis as of August, just under the 0.6% U.S. rate. On a year-over-year basis, the average asking rate in the metro posted a 13.5% increase, to $2,721, leading the 10.9% national rate, which clocked in at $1,718.
- Expectedly, demand was slightly higher for working-class Renter-by-Necessity units, where the average asking rent was up 0.6% on a T3 basis, to $2,412. Meanwhile, Lifestyle rents rose 0.4% to $3,143. Although the occupancy rate in stabilized properties decreased 30 basis points in the 12 months ending in July, at 97.4%, Orange County has one of the tightest rental markets in the country. In alignment with rent growth, RBN occupancy slid just 20 basis points to 98%, and Lifestyle occupancy dropped 50 basis points to 96.6%.
- Just two of the 26 submarkets tracked by Yardi Matrix posted single-digit rent gains, leaving no area in Orange County with an average below the $2,000 mark, compared to four a year ago. In August, five submarkets had average asking rates above the $3,000 mark, up from just one the previous year—Newport Beach (12.4% to $3,531), South Irvine (14.9% to $3,181) and West Irvine (18.1% to $3,151), North Irvine (16.2% to $3,136) and South Orange County (14.7% to $3,047).
- The SFR sector continued to grow—Orange County was one of the few metros with occupancy increases (up 0.8% year-over-year through July). Rents rose 9.7% year-over-year through August, 20 basis points ahead of the U.S. rate.

Orange County vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Orange County Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- Orange County's unemployment rate looks positive, dropping to 2.8% in July, from the 4.2% rate in January, and slightly above the 2.4% May rate. Among California's major metros, Orange County trailed only San Francisco (2.5%) and outperformed the state (3.9%) and U.S. (3.5%) rates.
- The job market expanded 5.7% in the 12 months ending in June, and even though it led the U.S. (4.7%), it has been on a steadily decreasing trend from the 9.0% rate recorded in September 2021. Overall, Orange County added 78,800 jobs during this period, with only the financial activities sector losing positions (1,000).
- The ongoing recovery of the leisure and hospitality sector led job gains (37,600 jobs). Additionally, conventions furthered the sector's recovery, as confirmed bookings for the Anaheim Convention Center were up 11% compared to 2019, according to Visit Anaheim. Moreover, Disney recorded 35% in the first quarter of 2022, as it recouped losses experienced during the height of the pandemic.
- Next in line were professional and business services (10,600 jobs) and education and health services (7,900 jobs). Set to further strengthen the latter is the recent announcement from Providence Mission Hospital to invest $712 million in a bed expansion and new centers in Orange County.

Orange County Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	223	13.4%
60	Professional and Business Services	328	19.8%
65	Education and Health Services	243	14.7%
90	Government	164	9.9%
30	Manufacturing	153	9.2%
80	Other Services	52	3.1%
40	Trade, Transportation and Utilities	250	15.1%
15	Mining, Logging and Construction	104	6.3%
50	Information	26	1.6%
55	Financial Activities	115	6.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Orange County's population marked another decline in 2021, losing 16,292 residents, or 0.5%. That followed a great 2020, when the metro added close to 14,000 residents. Nationally, demographic growth inched up 0.1%. Since 2012, Orange County's population is 2.9% higher.

Orange County vs. National Population

	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Orange County	3,175,579	3,170,851	3,184,101	3,167,809

Source: U.S. Census

SUPPLY

- Through August, 1,232 units came online in Orange County, accounting for 0.6% of existing stock, less than half the 1.3% U.S. rate. The current inventory expansion is below the 1,788 units delivered during the same period last year.

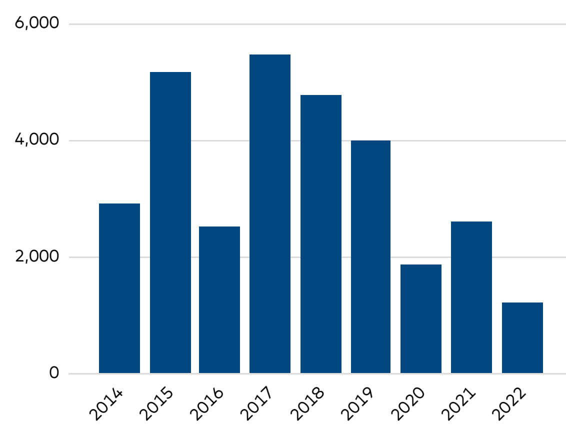
- The current economic landscape, dotted with multiple challenges including rising inflation, rising construction materials costs, supply-chain issues and labor shortages impacted delivery volume. Developer focus remained on upscale projects, which accounted for more than 90% of deliveries, with the remaining 9% of units in fully affordable communities.

- The construction pipeline remained robust, with 8,356 units underway and 31,000 units in the planning and permitting stages. Still, a softening is evident in the figures pertaining to construction starts; through August, just 625 units broke ground, well below the 2,512 units during the corresponding interval last year. The composition of the construction pipeline was again geared toward the upscale segment. Fully affordable communities accounted for 19% of the pipeline.

- Less than half of Orange County's submarkets had at least 50 units under construction, and three had 1,000-plus units underway—South Orange County (1,956 units), Santa Ana (1,692 units) and South Irvine (1,478 units).

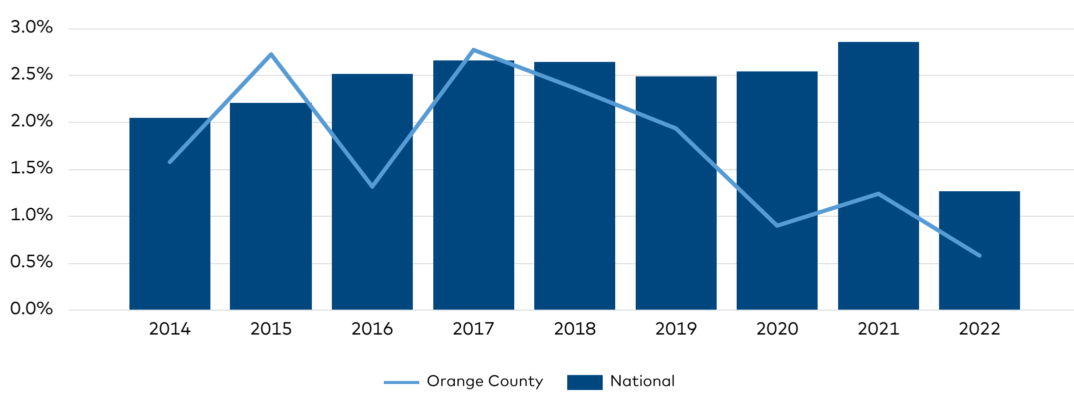
- The largest project delivered through August was Vita, a Fairfield Residential 357-unit property in Santa Ana, built with aid from a $176 million construction loan issued by Northwestern Mutual.

Orange County Completions (as of August 2022)



Source: Yardi Matrix

Orange County vs. National Completions as a Percentage of Total Stock (as of August 2022)

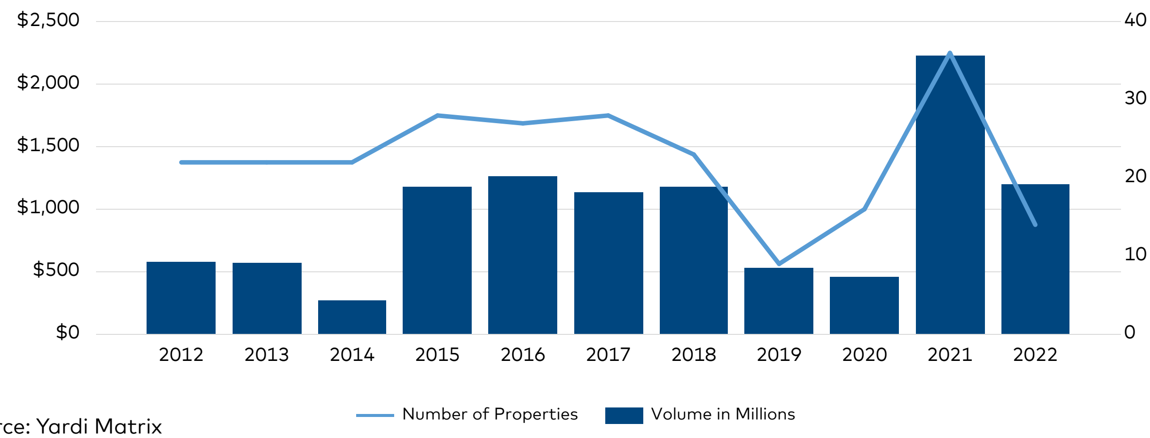


Source: Yardi Matrix

TRANSACTIONS

- Investors traded $1.2 billion in multifamily assets in 2022 through August, slightly above the $1.1 billion figure recorded during the corresponding interval last year. However, for the remainder of the year, it's likely that investment will temper due to increasing economic uncertainty.
- While last year the sales composition was fairly balanced between quality segments, in 2022, it indicates investor interest in value-add opportunities, with two-thirds of total sales involving Renter-by-Necessity assets. Even so, increased competition for value-add plays pushed the price per unit up 13.7% on a year-over-year basis, to $434,025, double the $217,196 U.S. average.
- Madison Park, a 768-unit property, held the highest sale price through August—$283.5 million, or $369,141 per unit, paid by Bridge Investment Group to MG Properties Group. The largest per-unit price was paid by Rockwood Capital ($688,800) for the 250-unit 580 Anton.

Orange County Sales Volume and Number of Properties Sold (as of August 2022)



Source: Yardi Matrix

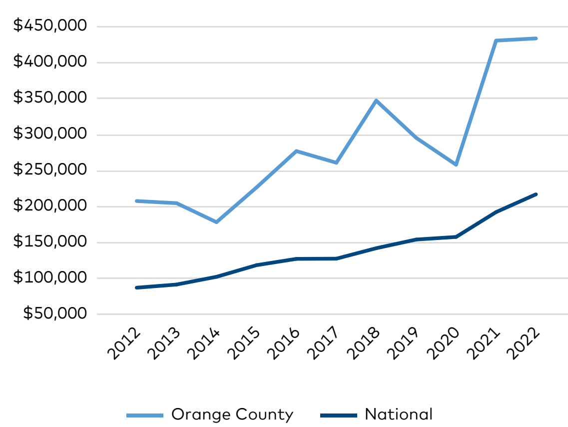
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Placentia	310
Anaheim–West	306
Fullerton–North	237
South Orange County	215
Santa Ana	211
Yorba Linda	206
La Habra	183

Source: Yardi Matrix

[1] From September 2021 to August 2022

Orange County vs. National Sales Price per Unit



Source: Yardi Matrix

Wakeland's New CEO on California's Affordable Housing Crisis

By Anda Rosu

Demand for affordable housing in California's biggest urban centers is sky-high and developers are struggling to strike the right balance between catering to residents' need for affordable housing and the increasing cost of development. Wakeland Housing and Development Corp.'s new President & CEO, Rebecca Louie, discusses what is hindering construction in the state and how she plans to boost affordable housing production.

How much has the pandemic worsened housing affordability in California?

Rents have increased in California by approximately 10 percent since the start of the pandemic. Statewide, the average rent is now approximately $2,200 per month, up from $2,000 per month at the start of the pandemic.

What are the top three reasons why it is so difficult to build affordable housing projects in the state today?

The top reason is the lack of resources for affordable housing development, including subordinate financing, project-based Section 8 vouchers, limitations on bond volume cap and 9 percent tax credit equity. The second is high construction and other development costs, many of which have been exacerbated by the pandemic. The third reason is a lack of political will, which often allows a vocal minority to block affordable housing projects before they are developed.

How do the recent interest rate hikes and the rising inflation impact California's affordable housing sector?

Inflation and interest rate hikes are slowing the production of affordable housing. Projects that were feasible six months ago have been delayed or shelved entirely. Developers have to spend longer securing additional funding to make projects feasible, and state, as well as local subordinate lenders, have to increase subsidies on a per-unit basis.

What are your priorities as Wakeland CEO & President?

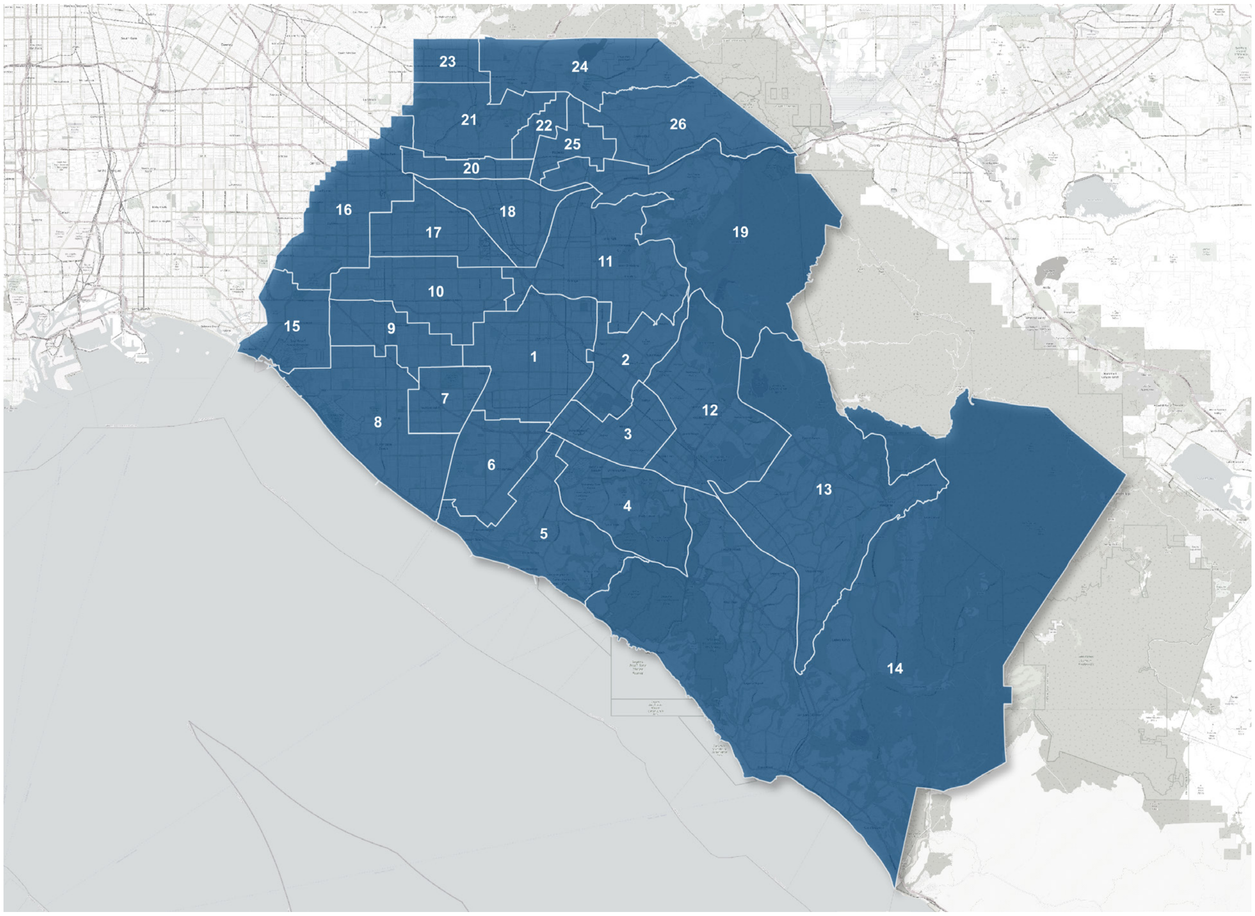
My top priority is always to build as many affordable homes as we can, at every level, from family housing to senior housing, to housing for people experiencing homelessness. I also plan to be a strong advocate for improving our local, state and federal policies to encourage the production of more affordable housing.

How is the current economic landscape going to impact California's affordable housing market?

We are now seeing projects completed and occupied by low-income residents on a daily basis. The impacts of inflation and rate increases will diminish project completions in 2024 and beyond.

However, California policymakers must continue to invest in affordable housing production to solve our current housing and homelessness crisis. They also need to continue prioritizing strategies to reduce costs and development timelines.

ORANGE COUNTY SUBMARKETS



Area No.	Submarket
1	Santa Ana
2	Tustin
3	Central Irvine
4	South Irvine
5	Newport Beach
6	Costa Mesa
7	Fountain Valley
8	Huntington Beach
9	Westminster
10	Garden Grove
11	Orange
12	West Irvine
13	Mission Viejo–Lake Forest

Area No.	Submarket
14	South Orange County
15	Seal Beach
16	Buena Park–Cypress
17	Anaheim–West
18	Anaheim–Central
19	Anaheim Hills
20	Fullerton–South
21	Fullerton–North
22	Fullerton–University
23	La Habra
24	Brea
25	Placentia
26	Yorba Linda

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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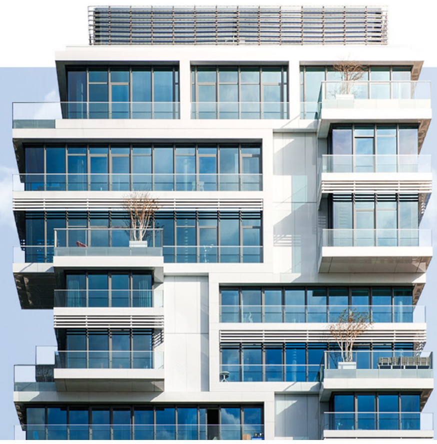
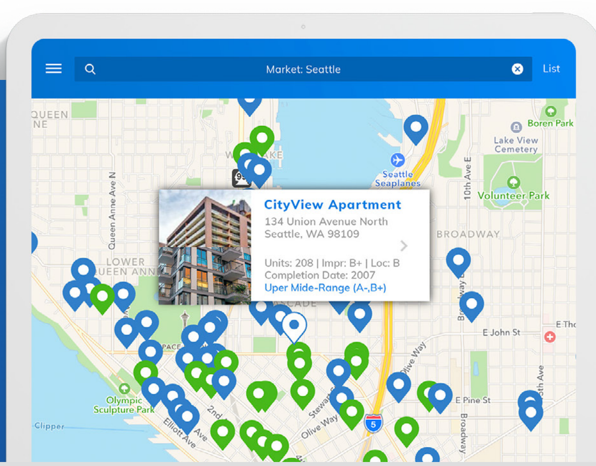
Yardi Matrix



Power your business with the industry's leading data provider

MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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