

Yardi® Matrix

MULTIFAMILY REPORT

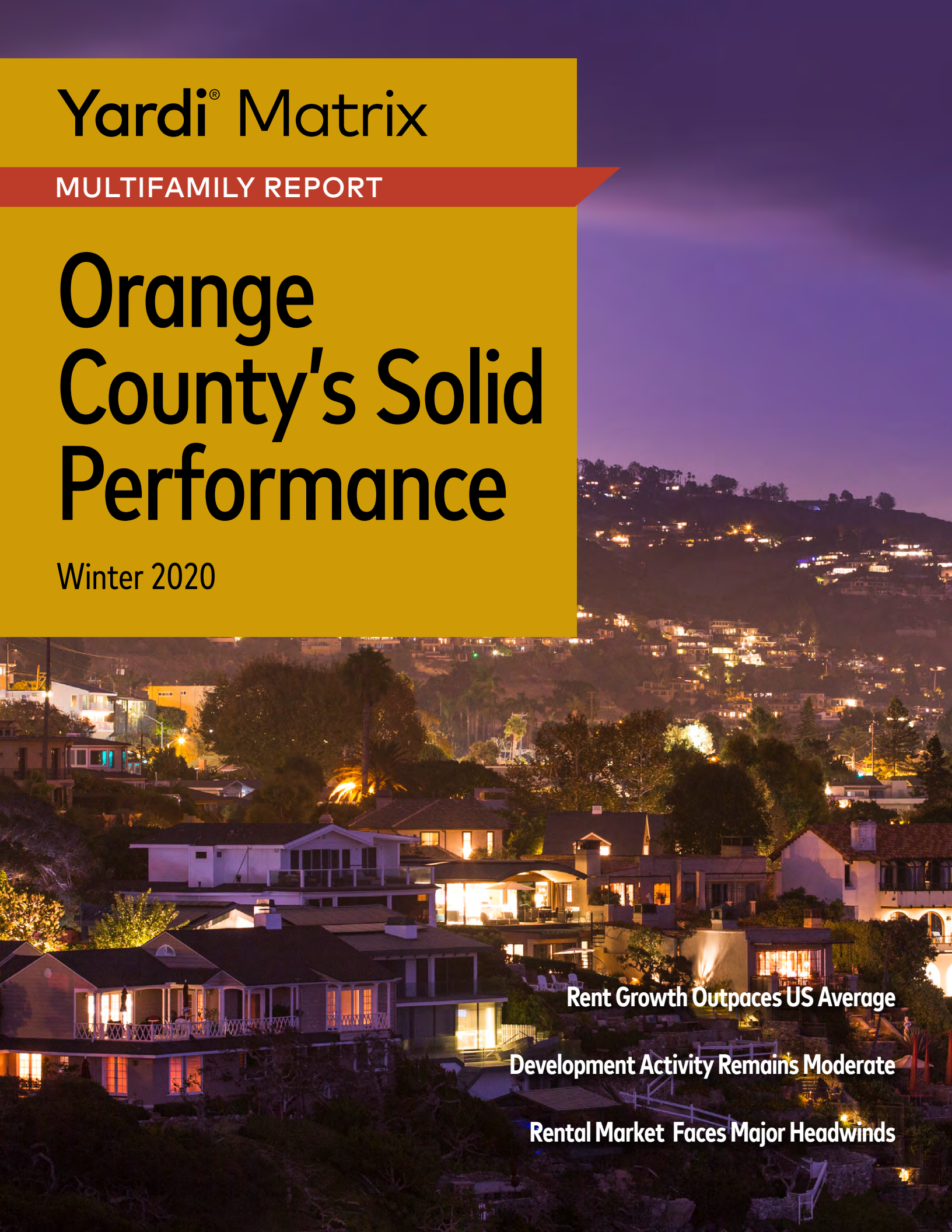
Orange County's Solid Performance

Winter 2020

Rent Growth Outpaces US Average

Development Activity Remains Moderate

Rental Market Faces Major Headwinds



ORANGE COUNTY MULTIFAMILY

Yardi® Matrix

Strong Demand Outpaces Supply

Orange County's multifamily market continues to see solid performance—due to strong demand and moderate supply growth—while single-family housing is among the most expensive in the nation. Despite policies that clash with the state's ties to global business opportunities, Orange County remains an economic powerhouse in Southern California.

Employment growth in the 12 months ending in September was led by professional and business services, which gained 7,500 jobs. Leisure and hospitality added 6,100 jobs, thanks to strong tourism activity, a dynamic driver of the region's economy. The metro's high-tech business sector was also solid, especially in Irvine, which is home to more than 900 tech companies.

In anticipation of rent-control legislation changes, only five multifamily assets traded in Orange County in 2019 through November, for a combined \$279 million. When the state's AB 1482 law takes effect in January 2020, rent growth will likely be impacted. Consequently, investors could become less attracted to value-add deals in Orange County, for which acquisition yields have been as high as 8.0%. In 2019 through November, 2,181 units came online and another 5,000 units were underway. Absorption is expected to keep up, sustained by an uptick in high-paying jobs.

Market Analysis | Winter 2020

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On the cover: Photo by MattGush/iStockphoto.com

Recent Orange County Transactions

Fusion



City: Irvine, Calif.
Buyer: Olympus Property
Purchase Price: \$119 MM
Price per Unit: \$423,214

Idyllwillow



City: Mission Viejo, Calif.
Buyer: A & M Properties
Purchase Price: \$76 MM
Price per Unit: \$190,000

FountainGlen Goldenwest



City: Westminster, Calif.
Buyer: JP Morgan Asset Management
Purchase Price: \$71 MM
Price per Unit: \$232,787

Cypress Village



City: Buena Park, Calif.
Buyer: Priya Living
Purchase Price: \$29 MM
Price per Unit: \$327,841

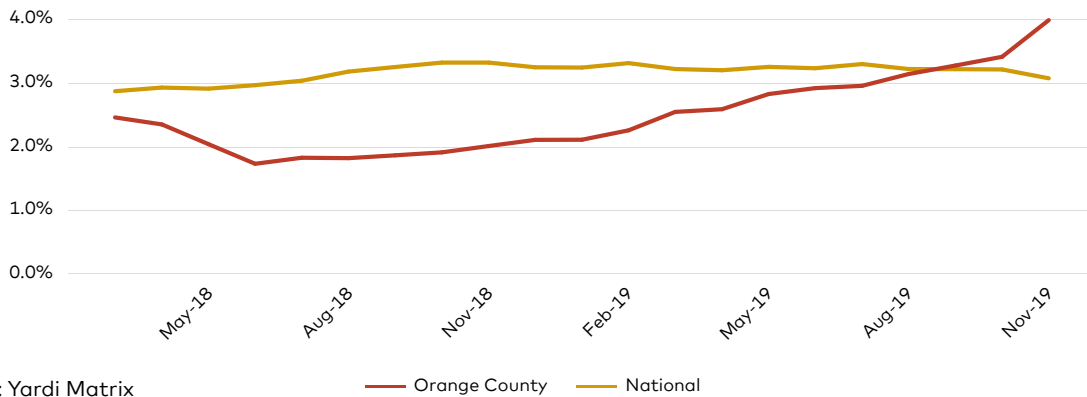
RENT TRENDS

- Rents in Orange County rose 3.8% year-over-year through November, outpacing the 3.1% national rate. The metro's average rent stood at \$2,161, well above the \$1,473 national average. Following a slowdown in deliveries in 2019 compared to 2018, occupancy in stabilized properties remained flat year-over-year at 96.0% as of October, higher than the 95.0% national average.
- Rents in the working-class Renter-by-Necessity segment rose 3.3% to \$1,936, while Lifestyle rates went up 4.5% to \$2,484. A rise in high-paying employment coupled with steady household creation continues to boost demand across the board, giving owners upside potential to further raise rents. However, on Jan. 1, 2020,

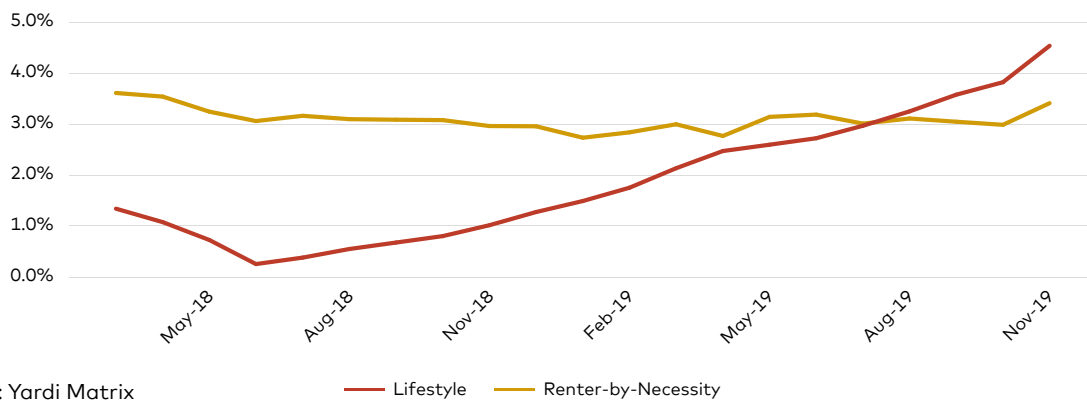
the state's latest rent control law, known as AB 1482, will take effect. The new law will limit rent increases for properties older than 15 years to 5% per year plus inflation, up to a maximum of 10%, while protecting residents from evictions. In anticipation of the new restrictions, many owners began significantly raising rates in November, which also contributed to the uptick.

- Growth was led by La Habra, where rents rose 6.6% to \$1,674. North Irvine came in second (up 6.2% to 2,484), followed by Yorba Linda (up 6.1% to \$2,088), Placentia (up 6.0% to \$1,971), and Anaheim Hills (up 5.9% to \$2,157). In Newport Beach—the metro's priciest submarket—rents rose 2.6% to \$2,815.

Orange County vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Orange County Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



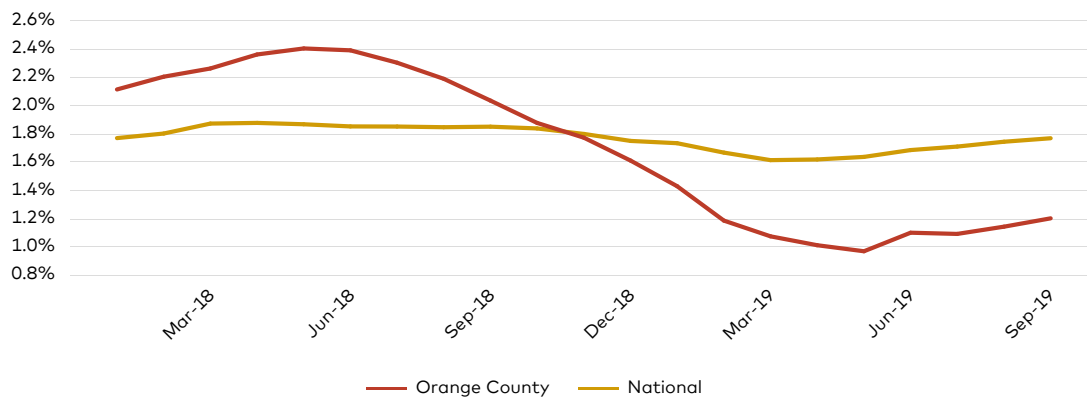
ECONOMIC SNAPSHOT

- ▶ Orange County gained 21,500 jobs in the 12 months ending in September, representing a 1.2% increase, but below the 1.8% national average. The metro's unemployment rate stood at 2.4% for the same period, one of its lowest levels in recent years.
- ▶ Professional and business services led growth with the addition of 7,500 jobs, boosted by the presence of Fortune 500 companies, along with startup, tech and media companies. Leisure and hospitality gained 6,100 jobs thanks to strong tourism activity, which remains a dynamic driver of the region's economy. In 2018, the metro welcomed more than 50 million visitors—up 1.6%

year-over-year—who spent over \$13 billion at local businesses. Construction added 3,300 positions, followed by education and health services with 2,700 jobs.

- ▶ High-paying jobs are concentrated in Irvine, which is home to more than 900 technology companies, half of which specialize in life sciences and medical technology. The area's reputation as a burgeoning global center of the life sciences industry—anchored by leaders such as Edwards Lifesciences and Allergan—is poised to grow stronger, thanks to UC Irvine's advanced medical research and abundance of STEM graduates.

Orange County vs. National Employment Growth (Year-Over-Year)



Sources: Yardi Matrix, Bureau of Labor Statistics (not seasonally adjusted)

Orange County Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	325	19.4%	7,500	2.4%
70	Leisure and Hospitality	230	13.8%	6,100	2.7%
15	Mining, Logging and Construction	113	6.8%	3,300	3.0%
65	Education and Health Services	229	13.7%	2,700	1.2%
55	Financial Activities	120	7.2%	2,100	1.8%
40	Trade, Transportation and Utilities	261	15.6%	600	0.2%
50	Information	27	1.6%	100	0.4%
30	Manufacturing	160	9.6%	100	0.1%
90	Government	156	9.3%	-	0.0%
80	Other Services	51	3.1%	-1,000	-1.9%

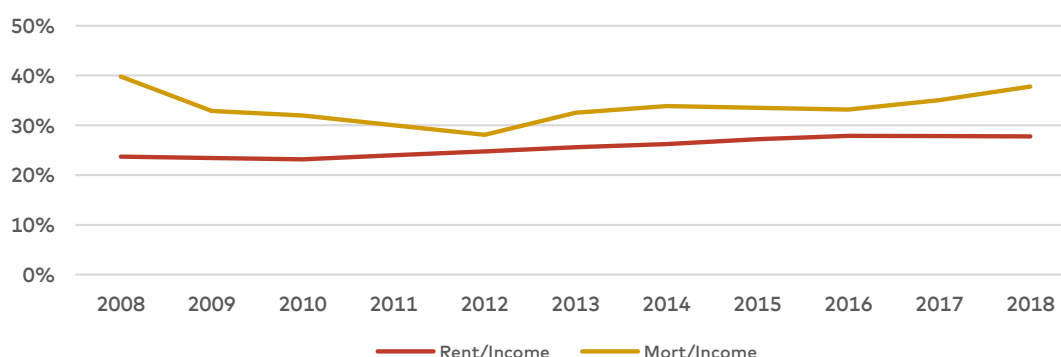
Sources: Yardi Matrix, Bureau of Labor Statistics

DEMOGRAPHICS

Affordability

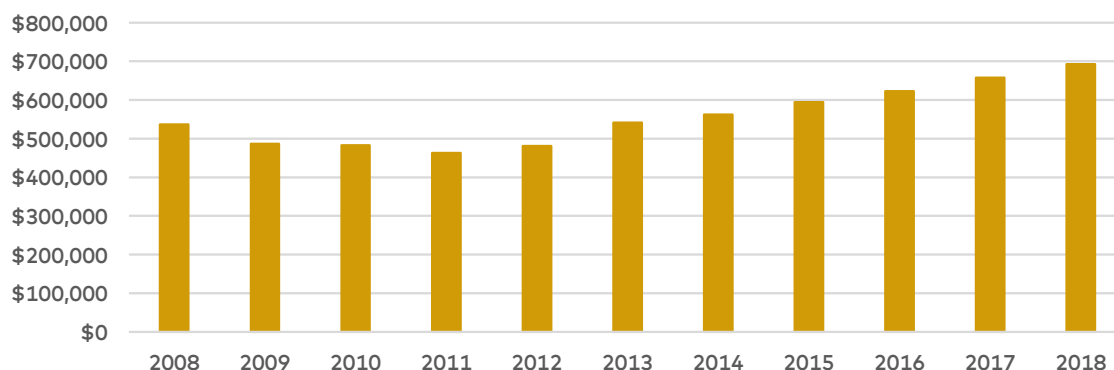
- The median home price in Orange County rose to a cycle peak of \$692,817 in 2018, up 5% since 2017 and 50% above the 2011 level. The average rent accounted for 28% of the area median income, while the average mortgage payment equated to 38%.
- Orange County is still the least affordable housing market in Southern California. The minimum annual income to qualify for a home loan is \$162,000 per year, according to the California Association of Realtors. In the third quarter of 2019, the percentage of home buyers who could afford a median-priced, single-family home in California rose to 31%, up from 27% in 2018's third quarter.

Orange County Rent vs. Own Affordability as a Percentage of Income



Sources: Yardi Matrix, Moody's Analytics

Orange County Median Home Price



Source: Moody's Analytics

Population

- Orange County gained more than 6,000 residents in 2018—a 0.2% population increase and below the 0.6% national average.
- Between 2014 and 2018, the metro's population rose by 55,646 residents or 1.8%.

Orange County vs. National Population

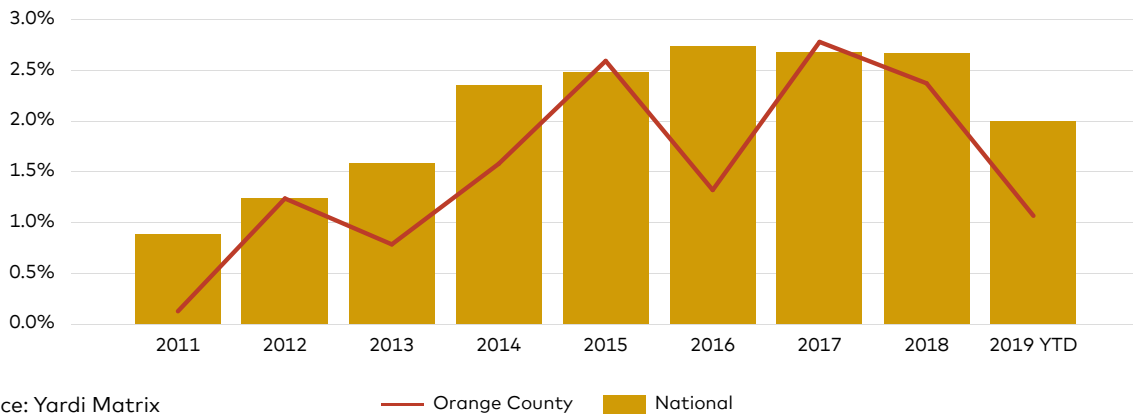
	2014	2015	2016	2017
National	320,742,673	323,071,342	325,147,121	327,167,434
Orange County Metro	3,153,962	3,170,707	3,179,950	3,185,968

Sources: U.S. Census, Moody's Analytics

SUPPLY

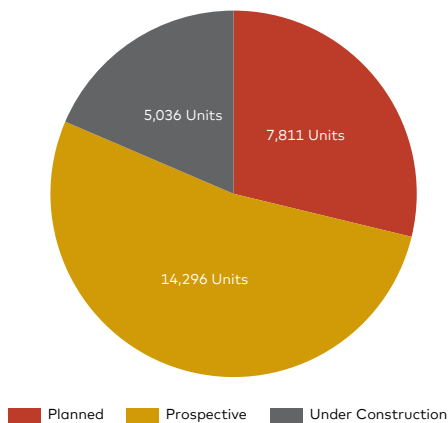
- Some 5,036 units were under construction in Orange County as of November, most of them catering to Lifestyle renters. Meanwhile, the occupancy rate in stabilized properties remained flat year-over-year at 96.0% as of October.
- Multifamily development took a step down in 2019. Through November, 2,181 units came online, representing 1.1% of total stock, and coming in below the 2.0% national average. The metro's pipeline as of November also included 22,000 units in the planning and permitting stages. Absorption is expected to hold strong, boosted by household creation and high-paying jobs.
- Submarkets with the highest number of units under construction included Santa Ana (1,042 units), Tustin (738 units), Anaheim–Central (708 units), West Irvine (660 units), and South Orange County (492 units). One Uptown Newport ranked as the metro's largest multifamily project underway as of November. Developed by The Picerne Group, the community will include 462 units—92 of which will be affordable—as well as 11,500 square feet of retail.

Orange County vs. National Completions as a Percentage of Total Stock (as of November 2019)



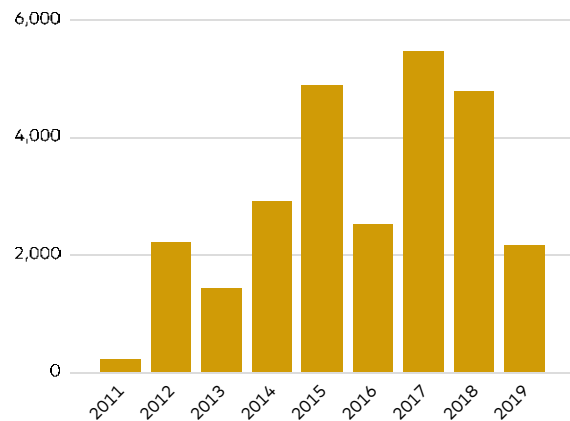
Source: Yardi Matrix

Development Pipeline (as of November 2019)



Source: Yardi Matrix

Orange County Completions (as of November 2019)



Source: Yardi Matrix

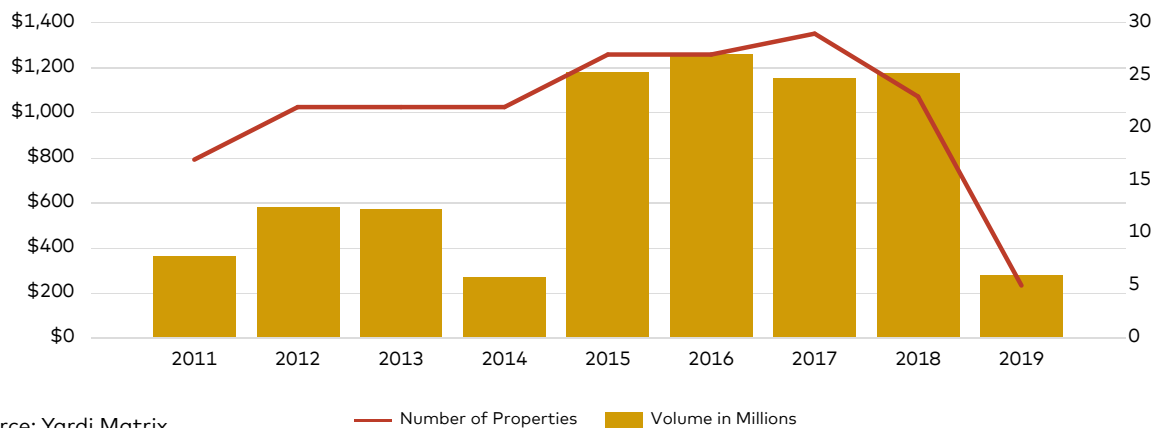
TRANSACTIONS

- ▶ In anticipation of regulatory changes, only five multifamily properties traded in Orange County in 2019 through November, for a combined \$279 million. Three of these assets were Class C, pushing the average price per unit down to \$255,374, but still above the \$162,751 national average. In 2018, sales neared \$1.2 billion, at an average price per unit of \$347,514.
- ▶ Since the AB 1482 bill affects properties built before 2005, investors could lose interest in

value-add opportunities in Orange County, for which acquisition yields climbed as high as 8.0% in 2019.

- ▶ A&M Properties' \$76 million acquisition of Idyllwillow, a 400-unit community in Mission Viejo–Lake Forest, ranked as the year's largest multifamily deal as of November. FPA Multifamily sold the Class B property—built in 1987—for \$190,000 per unit.

Orange County Sales Volume and Number of Properties Sold (as of November 2019)



Source: Yardi Matrix

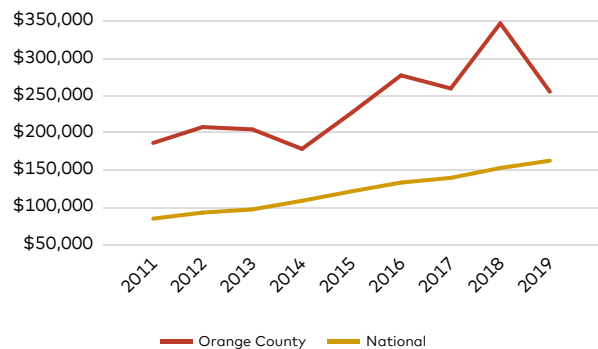
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
West Irvine	119
Santa Ana	115
Mission Viejo–Lake Forest	76
Westminster	71
Buena Park–Cypress	29
Anaheim–West	17

Source: Yardi Matrix

¹ From November 2018 to October 2019

Orange County vs. National Sales Price per Unit



Source: Yardi Matrix



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Vacant Office Building Sold

The 65,000-square-foot building will be transformed into a senior housing facility.



Community Lands \$28M Refi

Built in 1968, the 165-unit property Vio Tustin is located in Tustin, Calif.



UC Irvine Opens Latest Green Student Housing

The news comes a month after the university opened a new addition to its "Middle Earth" community.



CDP Begins Work On Affordable Project

Bridging the Aqua, a collaboration with Architecture Design Collaborative, will serve homeless residents.



Asset Trades For \$98M

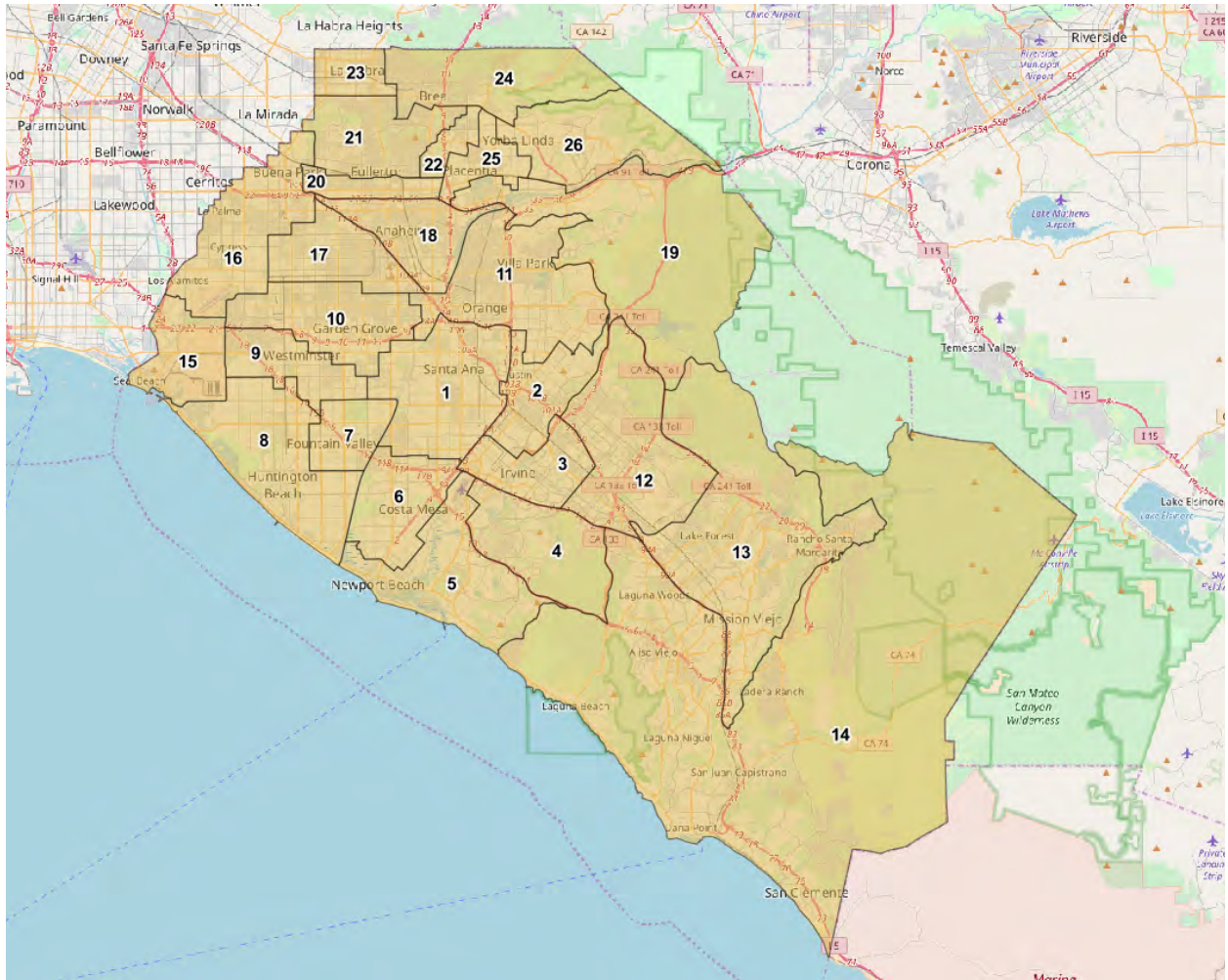
A private investor scooped up the 264-unit, Class A asset in Santa Ana, Calif. The property includes 10 affordable units.



Apartments Land \$56M Refi

NorthMarq secured the financing for Highland Pinetree Apartments in Fullerton, Calif.

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 may 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 may 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, may 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

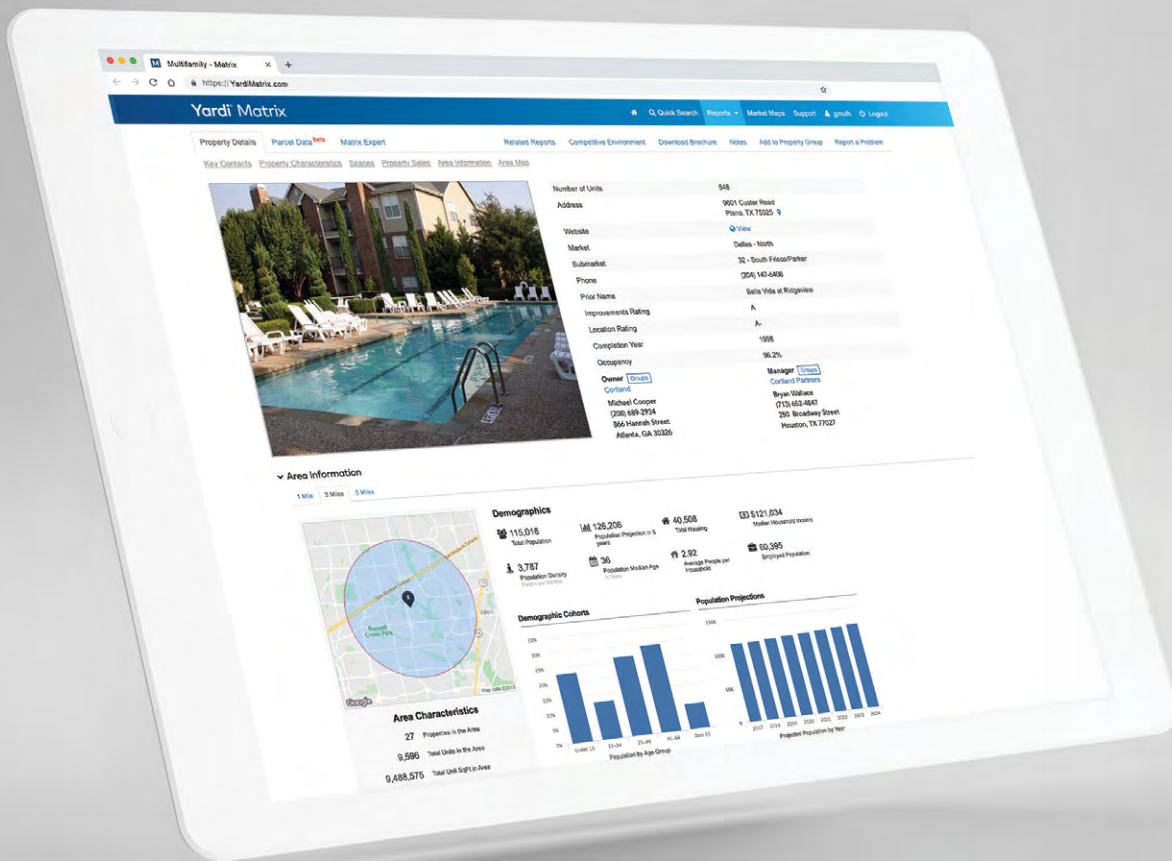
The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

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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