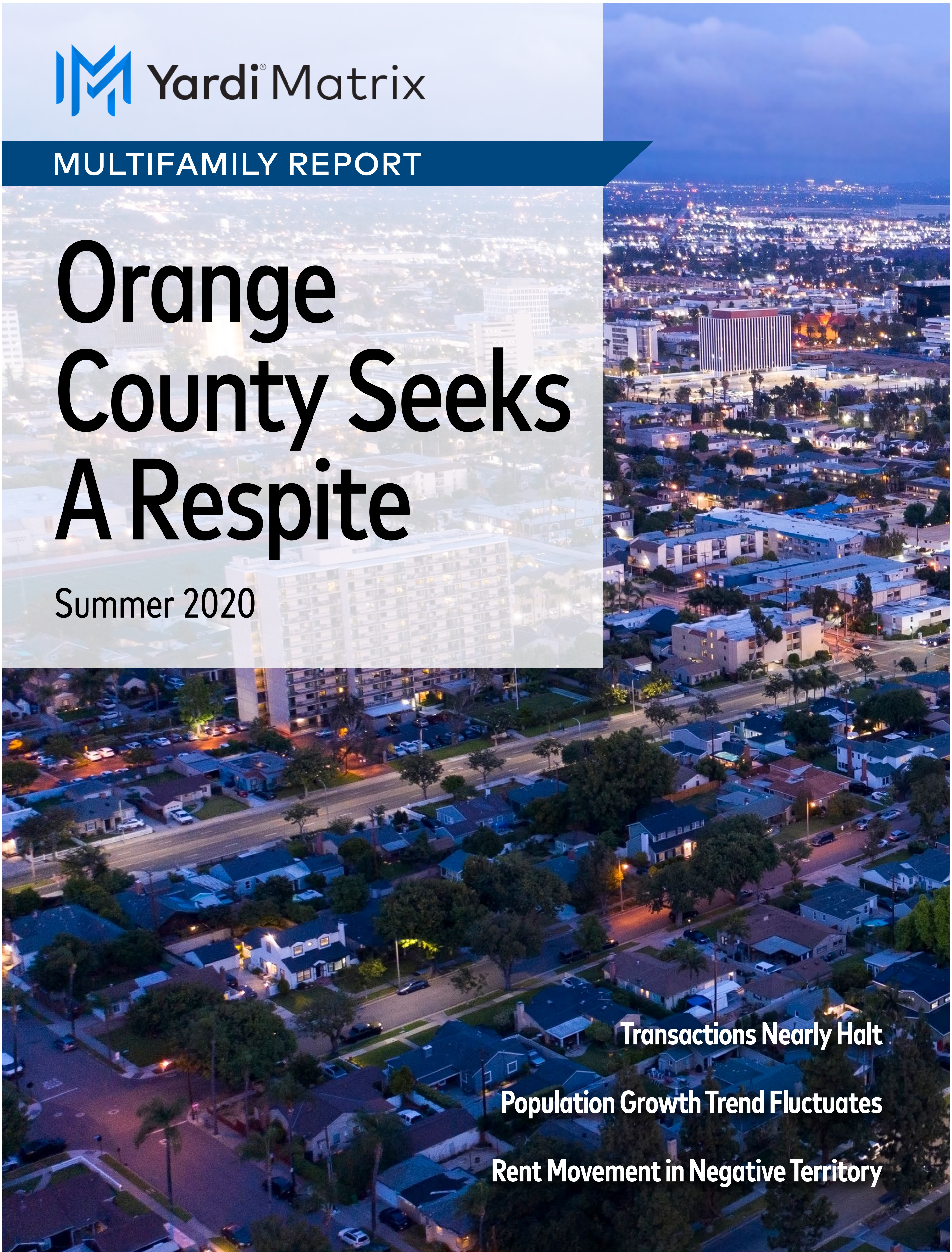
Yardi Matrix

MULTIFAMILY REPORT

Orange County Seeks A Respite

Summer 2020



Transactions Nearly Halt

Population Growth Trend Fluctuates

Rent Movement in Negative Territory

ORANGE COUNTY MULTIFAMILY

Yardi Matrix

Challenging Times Lie Ahead

Orange County was one of the first regions to impose stringent lockdown measures to contain the spread of the coronavirus, and this was reflected in the multifamily market's evolution. The metro's average rent contracted 0.5% on a trailing three-month basis through May, 30 basis points lower than the U.S. rate. Still, the county's $2,121 average is well above the $1,460 national figure.

Despite its robust economy, nearly 5.2 million unemployment claims were filed in California during the first three months of the pandemic. Still, while only three sectors registered job gains in the 12 months ending in March, the unemployment rate rose to 13.8% in April, below the 14.7% national rate. The leisure and hospitality sector was also badly hit; a California State University, Fullerton study calculated that Disneyland's closure is costing Southern California some $23 million per day. In mid-June, California's economy began reopening, but by late June Gov. Gavin Newsom had paused the reopening of additional sectors in 15 counties, including Orange County.

Transaction activity, already dampened by the recent rent control bill, has nearly halted, with only $62 million in multifamily assets trading in the metro in the first five months of 2020. The county had 4,635 units underway as of May and 849 apartments delivered during that period. Yardi Matrix expects rents to remain at a 0.5% decline through year-end.

Market Analysis | Summer 2020

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Recent Orange County Transactions

Vine Fullerton

City: Fullerton, Calif.
Buyer: Winstar Properties
Purchase Price: $22 MM
Price per Unit: $221,173

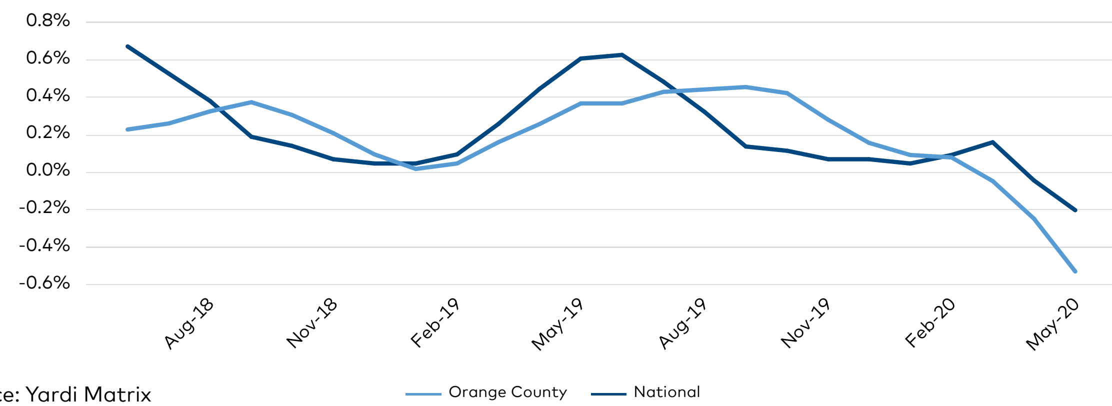
Crystal View

City: Garden Grove, Calif.
Buyer: Bridge Investment Group
Purchase Price: $119 MM
Price per Unit: $295,796

RENT TRENDS

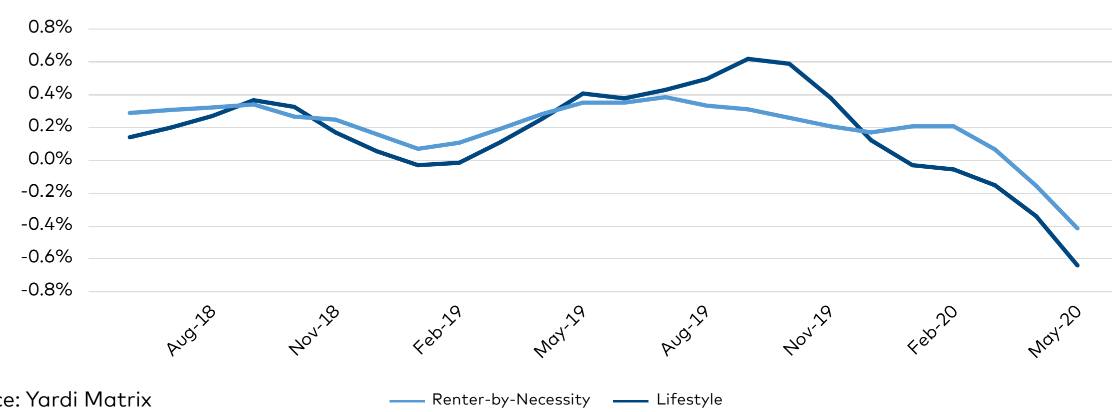
- Orange County rents contracted 0.5% on a trailing three-month basis through May to $2,121, while the national rate slid only 20 basis points to $1,460 during the same time frame.
- The slide comes in part from the early and stringent measures local officials implemented to curtail the spread of the coronavirus. Moreover, it signals that even though the multifamily is one of the least affected markets during an economic slowdown, rents and occupancy rates will not remain uneroded.
- The average rent in the Lifestyle segment saw the largest decline—down 0.6% to $2,413—while Renter-by-Necessity rents slid 0.4% to $1,920.
- At the end of May, Gov. Gavin Newsom extended the eviction moratorium that bans the enforcement of eviction orders for residential renters affected by COVID-19 until July 28.
- Rent growth has been spotty across the map—the average rent in the most sought-after region in Orange County, Newport Beach, rose 30 basis points to $2,761, while the rate in South Irvine slid 110 basis points to $2,541. La Habra, the submarket with the most affordable average rent, marked a 0.4% rent decrease to $1,757. The highest rent performance was registered in Brea, where prices rose 5.1% to $1,890.

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 rose from 3.7% in March to 13.8% in April. Employment growth had been well below the U.S. rate through the 12 months ending in March, 0.9% versus 1.4%, in part because the area's working-age population is shrinking, as residents relocate to metros where housing and overall living costs are more affordable.

- California was one of the first states to impose stringent lockdown measures to contain the virus spread; this pushed the unemployment claims filed across the state to nearly 5.2 million in the first three months of the outbreak. Still, the metro's diverse economy, including its tech-heavy employment hubs, could help it withstand the COVID-19 crisis. Theme park closures in March translated into a big financial hit for the region. A study by California State University, Fullerton estimated that Disneyland's closure could have an impact on Southern California's economy of $23 million per day.

- In mid-June, California's economy began reopening, but by late June the state had changed course, with Gov. Gavin Newsom pausing the reopening of additional sectors. The 15 counties facing delayed reopenings included Orange, L.A., and Sacramento counties.

Orange County Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
55	Financial Activities	121	7.3%
65	Education and Health Services	235	14.1%
90	Government	169	10.2%
50	Information	26	1.6%
40	Trade, Transportation and Utilities	256	15.4%
80	Other Services	51	3.1%
70	Leisure and Hospitality	225	13.5%
60	Professional and Business Services	321	19.3%
15	Mining, Logging and Construction	104	6.2%
30	Manufacturing	158	9.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- In 2019, the metro marked a 0.3% drop in population, or a loss of 10,276 residents.

- Orange County's population has fluctuated over the past decade; last year it lost residents for the second time during the cycle.

Orange County vs. National Population

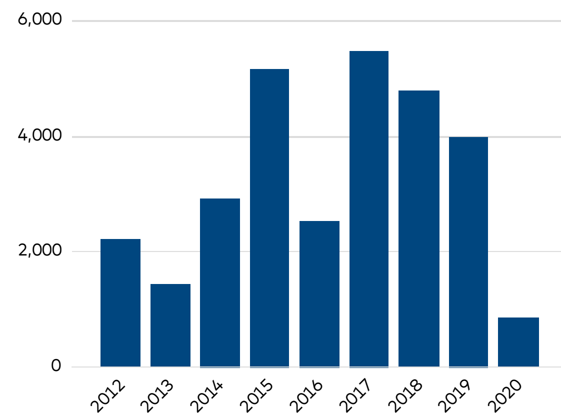
	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Orange County	3,170,707	3,179,950	3,185,968	3,175,692

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

SUPPLY

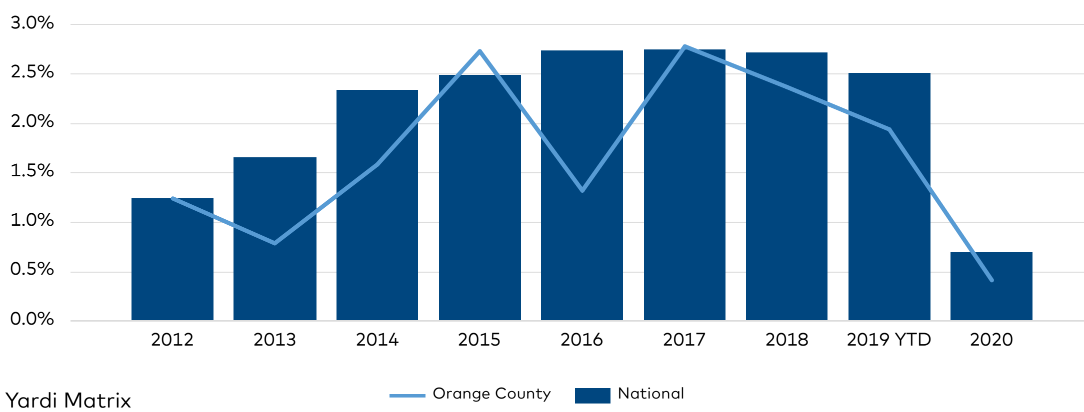
- Orange County had 4,635 units under construction as of May, and an additional 22,000 apartments in the planning and permitting stages.
- Some 2,500 units were slated for completion by the end of the year. However, even though housing construction was deemed an essential service in California, projects are likely to face delays, impacted by a tight labor pool, social distancing guidelines and supply chain disruptions.
- Developers brought 849 units in three properties online during the first five months of the year, accounting for 0.4% of total stock and 30 basis points below the national rate. All three are geared to the Lifestyle segment. Considering the job losses and furloughs that resulted from the health crisis—most of which were in low-wage positions—and the underway pipeline, the Renter-by-Necessity segment will likely be affected.
- About half of the pipeline is underway in just two submarkets—Santa Ana (1,467 units) and West Irvine (660 units). The latter posted an average rent of $2,365 in May, which places it among the county's most expensive submarkets. In the former, a partnership among AMG, Jamboree Housing Corp. and The Pacific Cos. is building the largest project in the region—the 419-unit Metro East Senior Park, a fully affordable, age-restricted community slated to come online this fall.

Orange County Completions (as of May 2020)



Source: Yardi Matrix

Orange County vs. National Completions as a Percentage of Total Stock (as of May 2020)



Source: Yardi Matrix

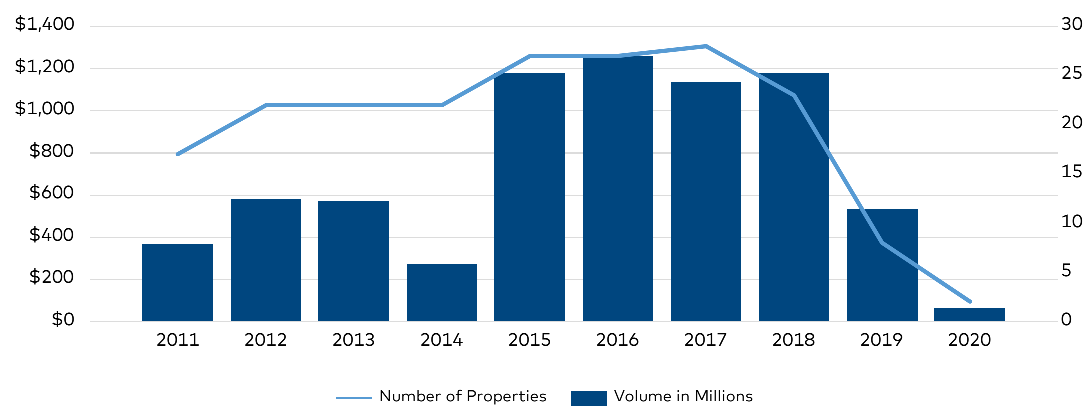
TRANSACTIONS

- Two multifamily assets traded in Orange County in 2020 through May, for a total of $63 million. This comes after 2019's volume of $532 million, which was already less than half of 2018's investment volume.

- Investors continued to be skeptical of placing their money in the area, given recent rent control measures put in place by the state of California through the AB 1482 Bill—which affects rent prices for properties built before 2005. Even so, both communities that traded this year were RBN assets built in 1969 and 1965, which slightly lowered the average the per-unit price by 0.9% to $292,874.

- In the 12 months ending in May, investors were most attracted to assets in Garden Grove ($119 million), Santa Ana ($115 million) and Costa Mesa ($114 million); the three submarkets combined represented two-thirds of Orange County's transaction volume—$502 million in that period.

Orange County Sales Volume and Number of Properties Sold (as of May 2020)



Source: Yardi Matrix

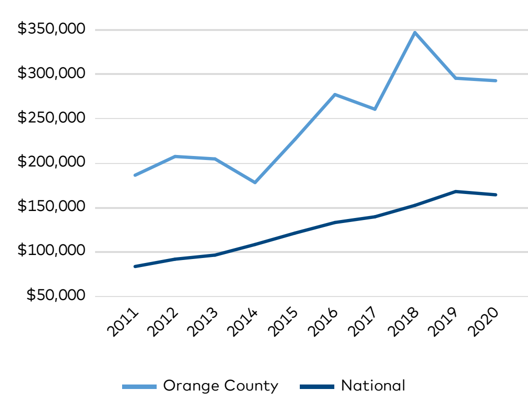
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Garden Grove	119
Santa Ana	115
Costa Mesa	114
Westminster	71
Tustin	41
Fullerton - South	22
Huntington Beach	20

Source: Yardi Matrix

[1] From June 2019 to May 2020

Orange County vs. National Sales Price per Unit



Source: Yardi Matrix

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MULTI-HOUSING NEWS

What Draws Investors' Attention to Western Markets?

By Adina Marcut

San Diego-based MG Properties Group focuses on the acquisition, development, rehabilitation and management of apartment communities throughout the Western U.S. Since 2017, the company has acquired nearly $3 billion worth of apartment properties on the West Coast. CIO Paul Kaseburg talks about investing in the area during these challenging times and shares how the company's approach has changed.

MG Properties Group recently closed a deal in Sacramento. Are you planning to expand your West Coast portfolio?

We tend to be net buyers throughout market cycles and are continuing to actively pursue acquisitions in all Western states. We target properties in locations with strong job growth prospects, a limited supply pipeline and high barriers to entry. As a vertically integrated owner/operator, we use feedback from our existing portfolio to inform our investment decisions and target properties and locations that we believe have the best opportunities for solid, sustained performance.

What makes smaller markets like Sacramento, Inland Empire and Orange County suitable for multifamily investment?

Much of the development during this last cycle has been focused on core urban locations in gateway markets. The affordability of secondary markets has driven population and job growth, creating strong demand combined with

less competition from new supply.

Tell us more about your investment strategy.

The bulk of our equity capital is syndicated from a broad group of private investors, family offices and wealth advisers. We are long-term cash-flow oriented investors and focus on properties that provide both potential upside as well as stability during market downturns. As owners/operators, we target properties where we can add value through value-add improvements and by implementing our hands-on management approach. We use moderate leverage and match our capitalization plan with the business strategy for each asset.

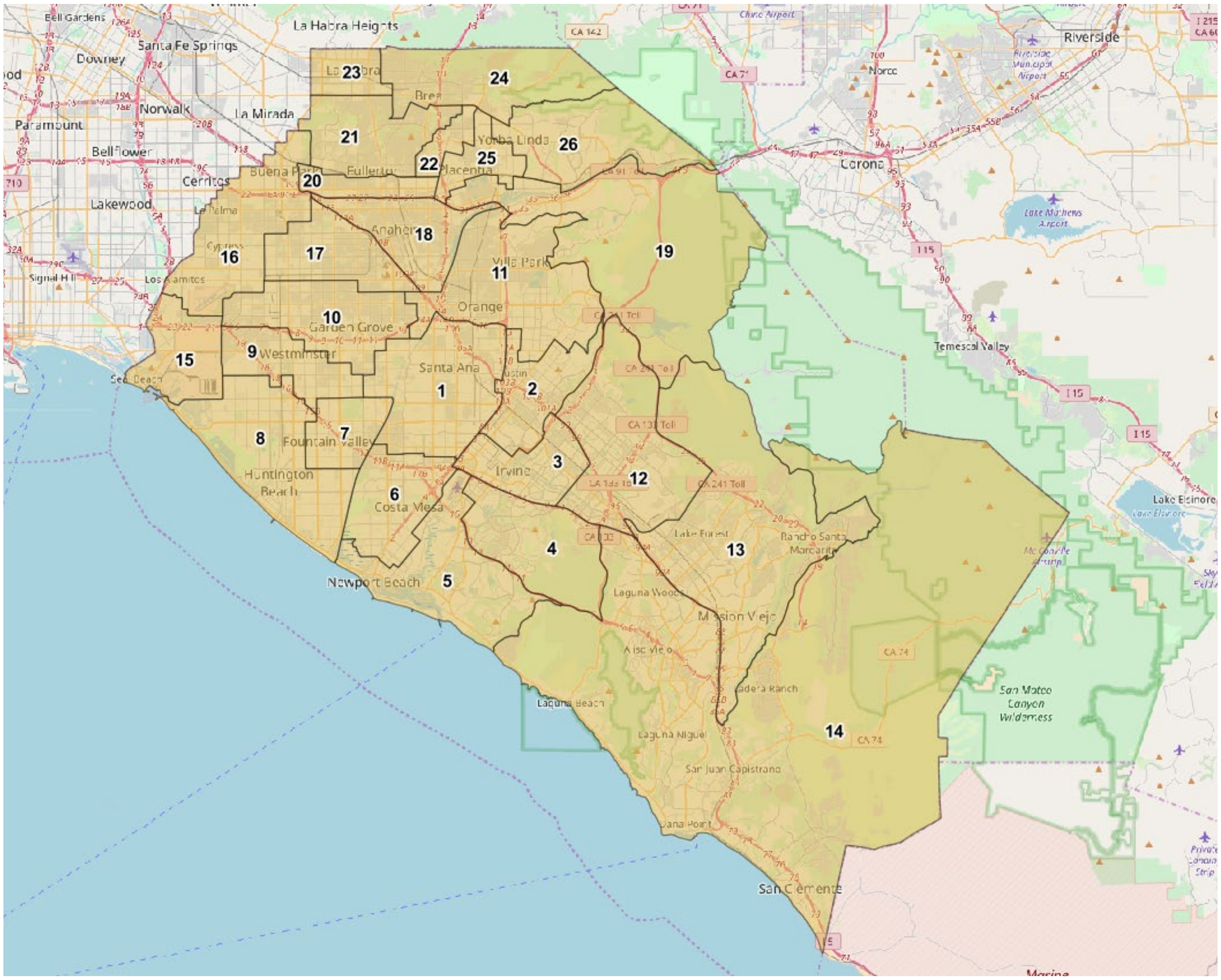
How did the health crisis impact the California markets you are active in?

Within California, the performance of our regions has varied significantly. Los Angeles and the Bay Area have been disproportionately affected by the crisis, while the influence on other markets has been more moderate. Portfolio performance so far tends to be most impacted in submarkets with a high concentration of job losses due to COVID-19 and those with more polarized political environments.

What are your expectations for investment on the West Coast?

We continue to be strong believers in the long-term growth potential of our markets in the Western states. Western markets tend to have relatively higher barriers to entry and they have benefited from sustained job growth, which we do not expect to change due to the COVID-19 crisis.

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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