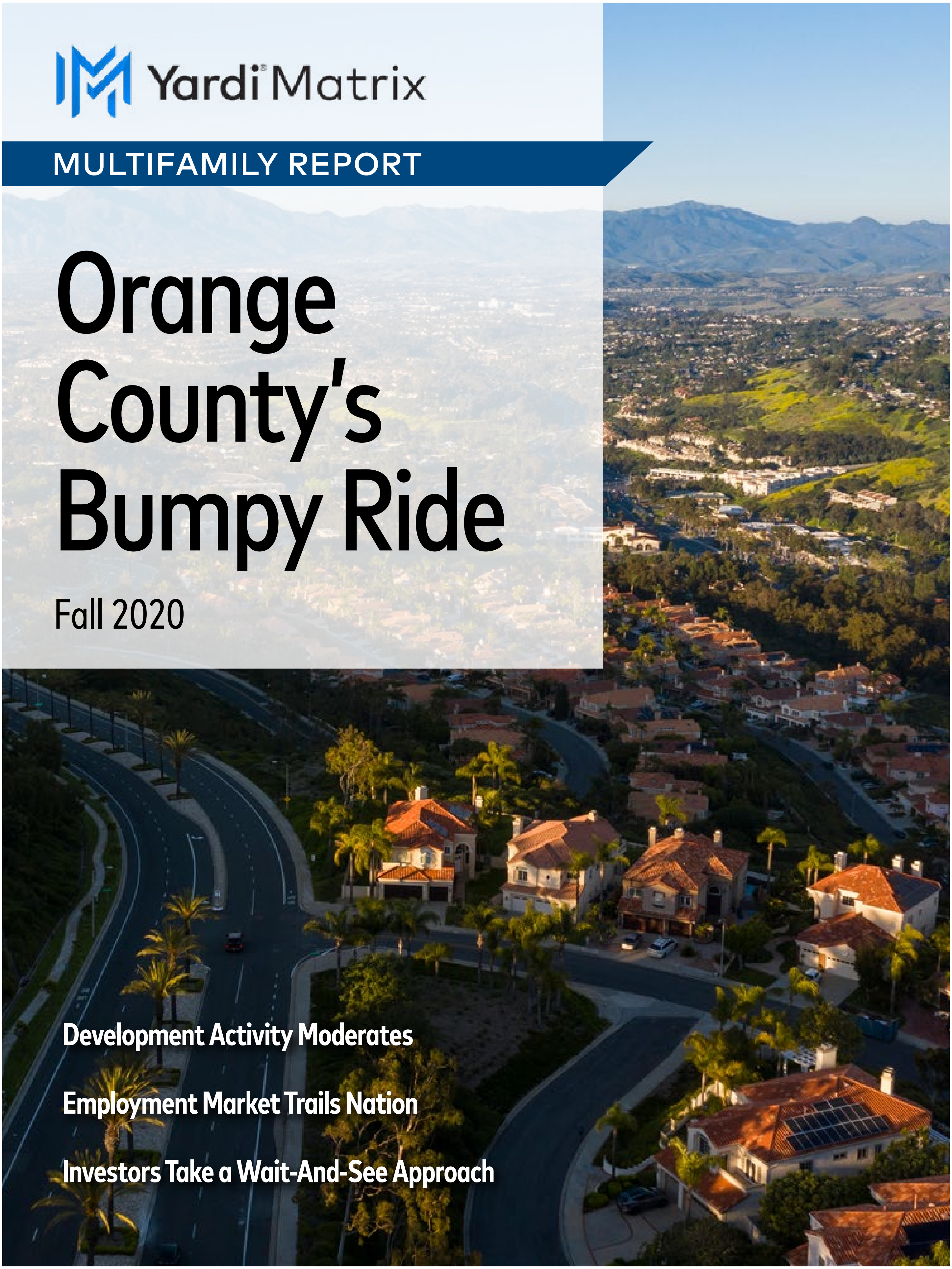
Yardi Matrix

MULTIFAMILY REPORT

Orange County's Bumpy Ride

Fall 2020



Development Activity Moderates

Employment Market Trails Nation

Investors Take a Wait-And-See Approach

ORANGE COUNTY MULTIFAMILY

Yardi Matrix

Spotty Performance Across Metrics

Orange County's multifamily fundamentals were a mixed bag at the close of the third quarter. Rent performance recovered after six consecutive months of declines, as the average rent rose 0.3% to $2,121, on a trailing three-month basis as of September. New-supply additions remained weak and transaction activity stalled, counterbalancing the encouraging rent performance. The occupancy rate in stabilized properties marked a 160-basis point decline to 94.2% year-over-year as of August.

More than 8.8 million unemployment claims were filed across California between mid-March and early October, and in the 12 months ending in July, all sectors registered reductions. Employment growth decreased 9.3% year-over-year as of July, faring worse than the 6.6% U.S. contraction rate. Unemployment posted a slow but steady comeback, from 14.7% in April to 12.4% in July, with preliminary data for August pointing to 9.9%. Employment is likely to take another hit following Disney's announcement of some 28,000 layoffs across the U.S.

Development was tepid, with 907 units delivered through September and 5,872 underway. Meanwhile, transaction volume halted at $63 million in sales recorded in the first quarter, for an average per-unit price that slid 0.9% to $292,874. Accounting for these factors, we expect rents to drop 1.7% in 2020.

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

Market Analysis | Fall 2020

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On the cover: Photo by MattGush/iStockphoto.com

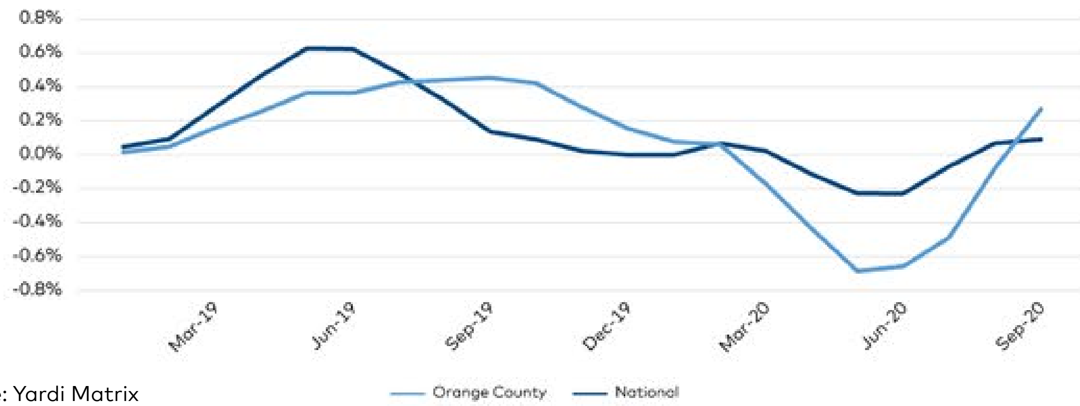
RENT TRENDS

- The average rate rose 0.3% on a trailing three-month basis through September to $2,121, while the national average inched up 0.1% to $1,463 during the period. Rent growth in Orange County recorded positive numbers in September, after six consecutive months of negative performance.

- Bucking the national trend, the rebound was led by the upscale Lifestyle segment, where the average rose 0.5% to $2,397, on a trailing three-month basis through September. That followed a 160-basis-point decline in the occupancy rate for stabilized properties year-over-year as of August, to 93.8%. Meanwhile, working-class Renter-by-Necessity rents appreciated by 0.1%, reaching $1,924. The occupancy rate in stabilized properties in the RBN segment slid 170 basis points to 94.5%. RBN occupancy and demand are likely to drop further in Orange County following Disney's announcement that it will lay off 28,000 employees.

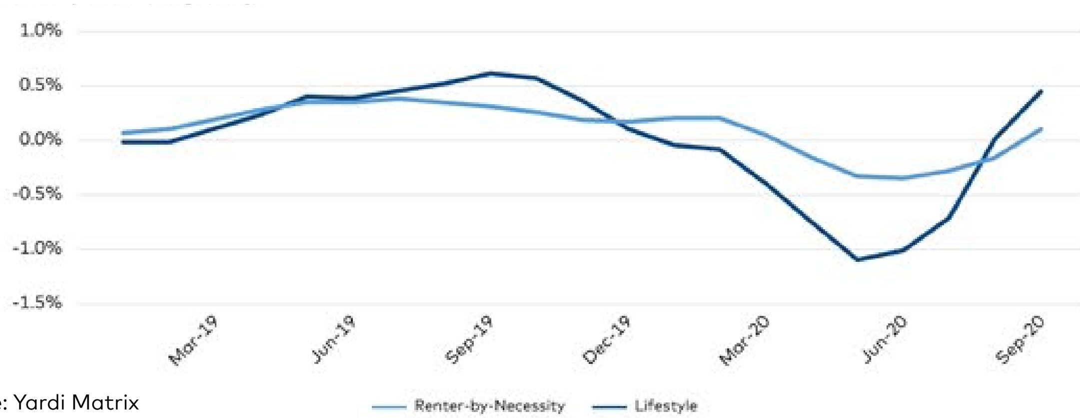
- Rents were uneven across the map, with half of the submarkets registering increases and the other half marking declines. The steepest contraction was posted in South Irvine (down 5.9% to $2,433) and North Irvine (down 4.8% to $2,327), which are two of Orange County's most expensive regions. Newport Beach, the metro's most expensive rental market, saw rents inch down 0.1% to $2,795. Santa Ana, the submarket with the most robust development pipeline, marked a 0.3% rise to an average price of $1,965.

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 economy exhibited a slow recovery following the economic fallout from the pandemic. The unemployment rate dropped to 12.4% in July from the 14.7% high point registered in April. Preliminary data for August pointed to a 9.9% rate. Unemployment claims filed across the state between mid-March and October surpassed 8.8 million. The number is expected to rise locally following the county's stagnation in its Tier 2 reopening.

- The failed progress in reopening was followed by Disney's announcement that it plans to lay off some 28,000 employees across its theme parks. As the largest employer in the region, the measure will likely bear an impact. According to a study conducted by California State University, Fullerton, the Disneyland Resort generated $8.5 billion in economic activity in Southern California in 2018. Moreover, Anaheim had 25 million annual visitors, a figure which, in 2020, has been cut by at least half.

- Even though employment growth continued to decline–down 9.3% in the year ending in July–lagging the U.S. rate by 270 basis points, the local economy is diversified. The largest sector–professional and business services (20.8%)–shrunk by 7.7%, while leisure and hospitality lost 33% of its jobs.

Orange County Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
55	Financial Activities	115	7.8%
50	Information	22	1.5%
15	Mining, Logging and Construction	104	7.1%
80	Other Services	40	2.7%
65	Education and Health Services	214	14.6%
30	Manufacturing	143	9.8%
90	Government	131	8.9%
40	Trade, Transportation and Utilities	237	16.2%
60	Professional and Business Services	304	20.8%
70	Leisure and Hospitality	157	10.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Orange County's population marked a 0.3% decline in 2019, or a loss of 10,276 residents, while the U.S. figure rose 0.3%.

- Between 2016 and 2019, the area's population fluctuated, marking a 0.2% overall increase.

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

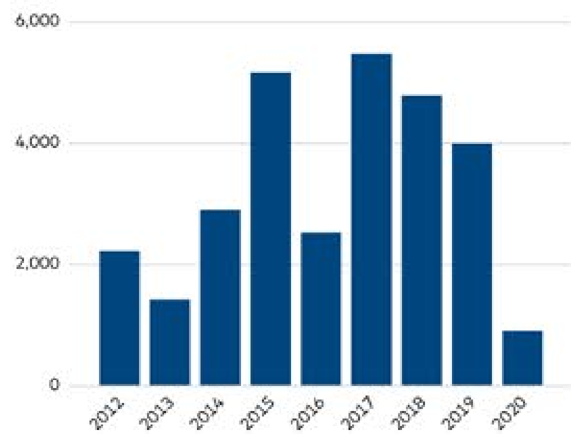
- Developers had 5,872 units under construction as of September, 2,500 of which are slated for completion by year-end. Another 27,500 units were in the planning and permitting stages.

- Development activity slowed considerably in Orange County, as developers brought 907 rental units online across four properties year-to-date. That's 0.4% of total stock, well below the 1.6% national rate. The bulk of new deliveries were completed in the year's first two quarters.

- Demand in the metro favored Lifestyle assets–rent gains were led by the Upscale segment with a 0.5% increase on a trailing three-month basis. This prompted builders to focus on the higher end of the quality spectrum and on the affordable component, paying little attention to the needs of the medium-income renter. Of the 25 projects underway, 11 are market-rate, 10 are fully affordable communities and four developments include an affordable component.

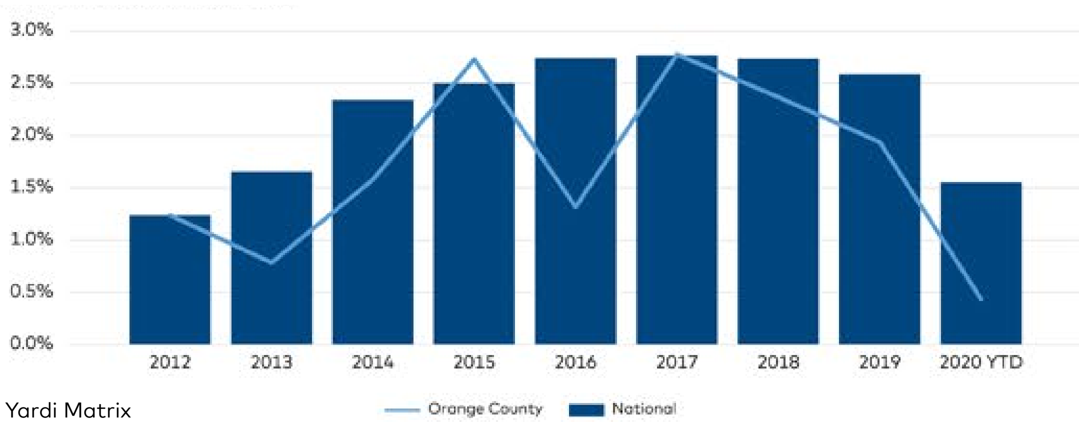
- Construction was most intense in the Santa Ana submarket, with 1,517 units in seven projects underway. Tustin followed with 886 units in two properties. The largest project delivered in 2020 through September was the 388-unit Elements, a partially affordable asset owned by Garden Communities in South Irvine. A second phase with 318 units is in the works, slated for completion in autumn 2021.

Orange County Completions (as of September 2020)



Source: Yardi Matrix

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



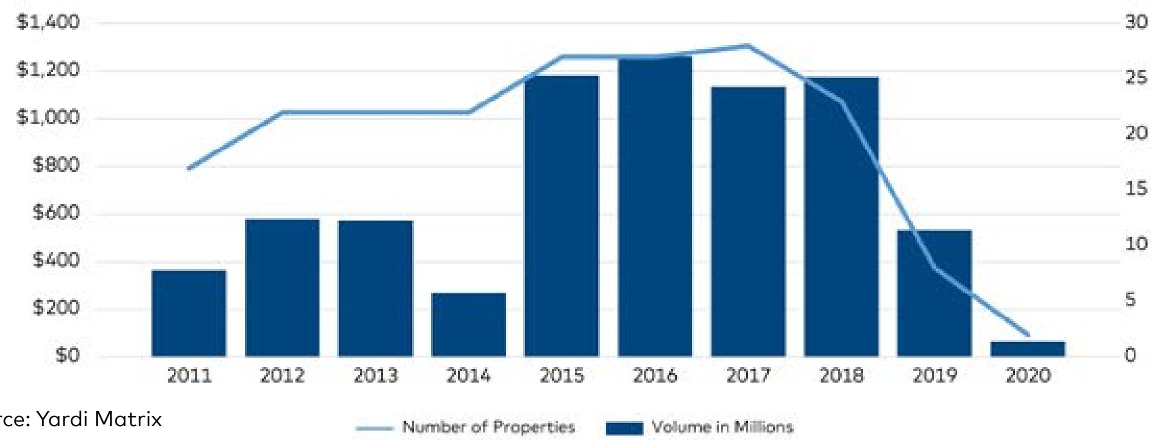
Source: Yardi Matrix

TRANSACTIONS

- Multifamily sales only reached $63 million year-to-date through September, as investors became more cautious. Following the onset of the health crisis, sales activity came to a screeching halt in Orange County.

- No multifamily properties have changed ownership in the metro since March. Only two transactions were finalized through the year's first nine months. Both sales involved RBN properties, leading the price per unit to slide 0.9% to $292,874, which is still nearly double the $163,150 national average.

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



Source: Yardi Matrix

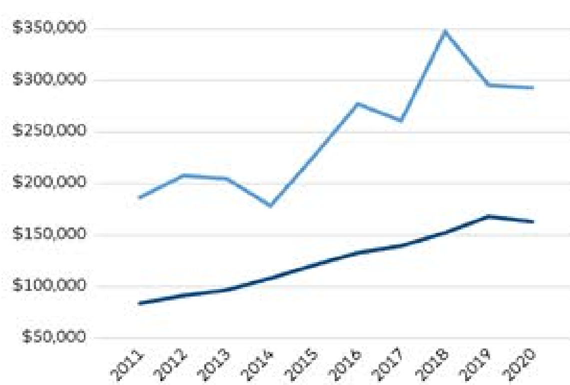
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Garden Grove	119
Costa Mesa	114
Tustin	41
Fullerton-South	22

Source: Yardi Matrix

[1] From October 2019 to September 2020

Orange County vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

Top 5 Multifamily Projects Under Construction in Orange County

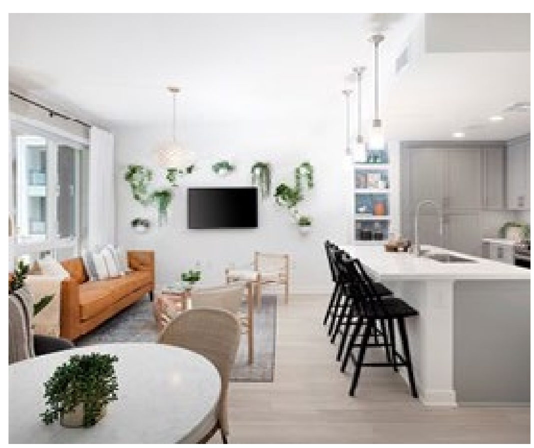
By Jeff Hamann

Despite a marked slowdown at the national level for multifamily construction, projects in Orange County continue to push forward. This year, developers broke ground on 1,810 units, accounting for nearly one-third of the market's 5,872 units underway, according to Yardi Matrix data. Developers have been most active in the Santa Ana submarket, where seven projects totaling 1,517 units were under construction in October.

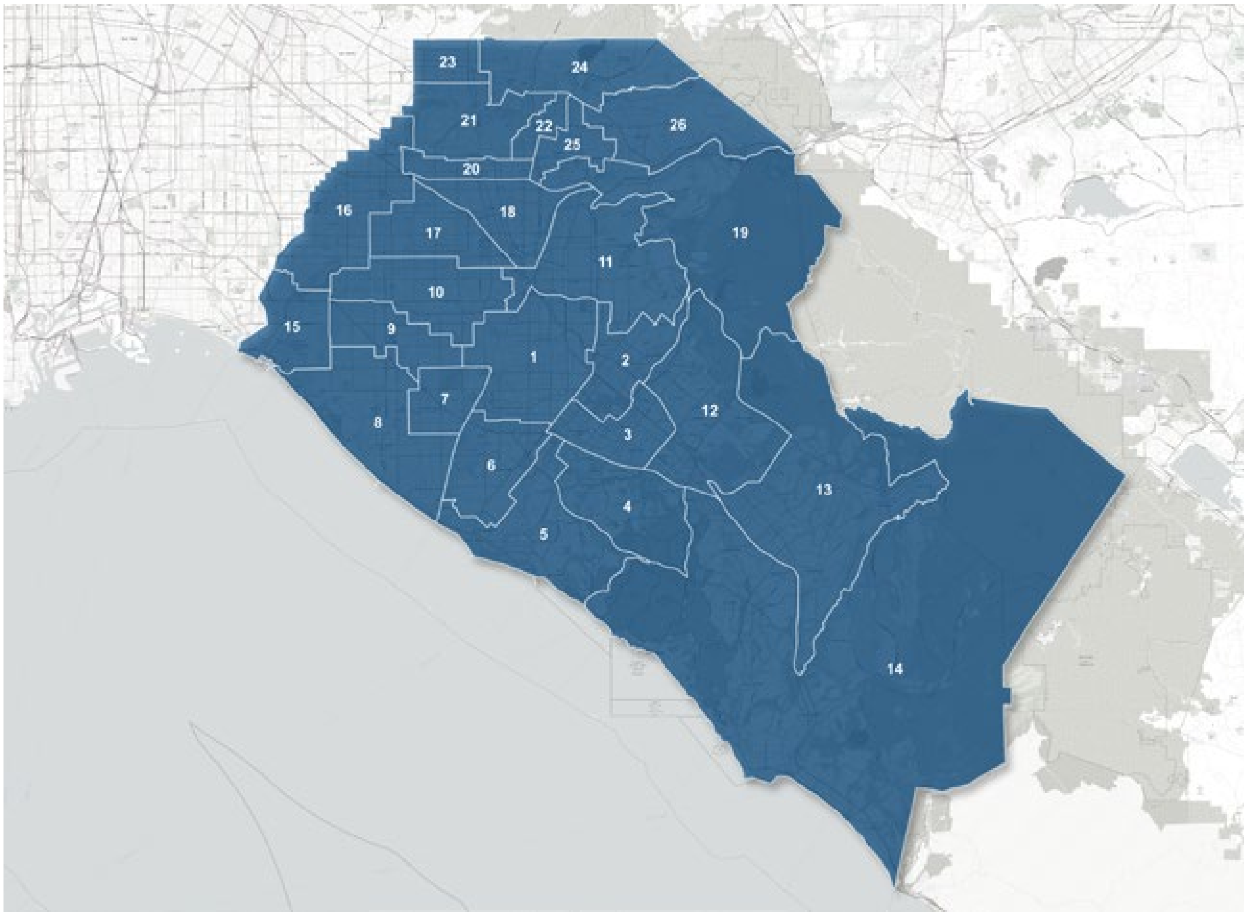
Rank	Property Name	Submarket	Owner	Units
1	Broadstone Atlas	Tustin	Alliance Residential Co., PGIM Real Estate	483
2	Metro East Senior Park	Santa Ana	AMG, Jamboree Housing, The Pacific Cos.	419
3	Garden Brook Senior Village	Garden Grove	AMG, The Pacific Cos.	395
4	Vita	Santa Ana	Fairfield Residential, Northwestern Mutual	358
5	Revo at Platinum Park	Anaheim	JPI, MORE Residential	332

BROADSTONE ATLAS

Orange County's largest multifamily project underway is the 483-unit Broadstone Atlas, backed by $108.7 million in financing from Wells Fargo. The owner, a partnership between Alliance Residential and PGIM Real Estate, broke ground on the development at 2001 E. Dyer Road in Santa Ana in September this year. Around the same time, Alliance and PGIM finished work at Broadstone Arden and Broadstone Archive, two communities within the larger Park & Paseo project.



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 September 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 September 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, September 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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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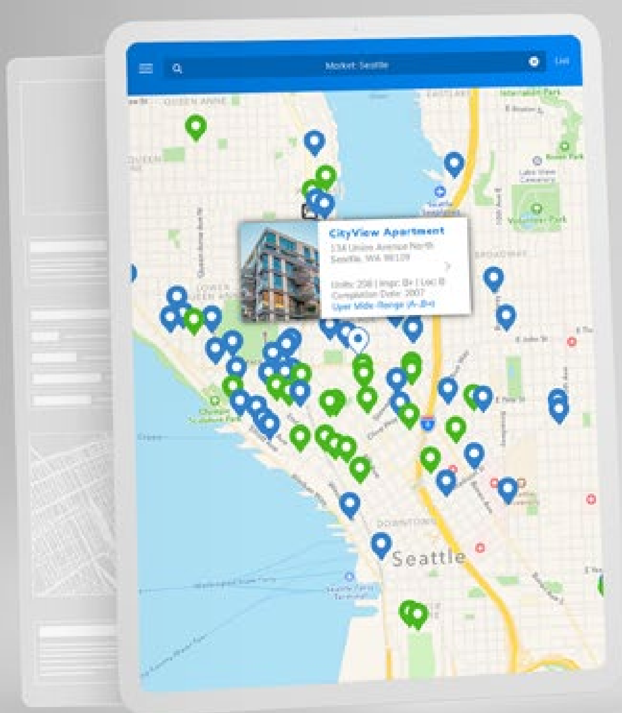

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