

Orange County: Slow & Steady

Spring 2021

Rent Gains Outperform Nation

Inventory Expansion Remains Limited

Transaction Activity Resumes, PPU Marks New High

ORANGE COUNTY MULTIFAMILY



Limited Supply Powers Rent Growth

Orange County displayed signs of stabilization in the second part of 2020 and this trend has continued in 2021. Limited new supply is again one step behind healthy demand, with rents rising by 0.3% on a trailing three-month basis through February, outperforming the 0.1% U.S. rate. The county's \$2,164 average as of February was well above the \$1,399 U.S. figure. Occupancy in stabilized properties also mirrored overall healthy dynamics and was up 30 basis points in the 12 months ending in January, to 96.2%.

Following the abrupt drop in job gains, the employment market posted a slow but steady comeback in the last quarter of 2020, recording a 9.5% reduction in the 12 months ending in December and trailing the -6.8% national figure. The unemployment rate stood at 6.4% in November, with preliminary Bureau of Labor Statistics data pointing to a new increase, at 7.4% as of January. Construction was the only sector to gain positions last year, up 1.8%. The metro's hardest-hit sector—leisure and hospitality—could see a rebound, as Disney, the county's largest employer, announced a gradual reopening starting at the end of April.

Developers had 6,547 units underway as of February, on the heels of 1,795 apartments coming online last year. Meanwhile, investors resumed activity and sales totaled \$189 million for the first two months of 2021, accounting for nearly half of last year's total volume.

Market Analysis | Spring 2021

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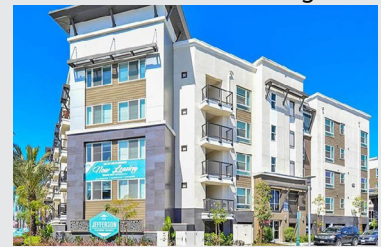
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On the cover: Photo by MattGush/iStockphoto.com

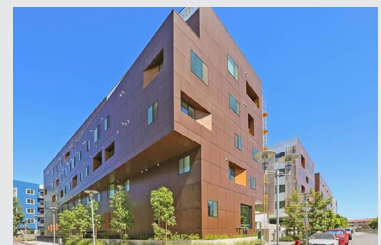
Recent Orange County Transactions

Jefferson Platinum Triangle



City: Anaheim, Calif.
Buyer: California Statewide Communities Development Authority
Purchase Price: \$160 MM
Price per Unit: \$400,000

Prisma



City: Santa Ana, Calif.
Buyer: Western National Investments
Purchase Price: \$80 MM
Price per Unit: \$436,813

Portico Villas



City: Fullerton, Calif.
Buyer: Fairmont Management
Purchase Price: \$50 MM
Price per Unit: \$389,258

The Edward

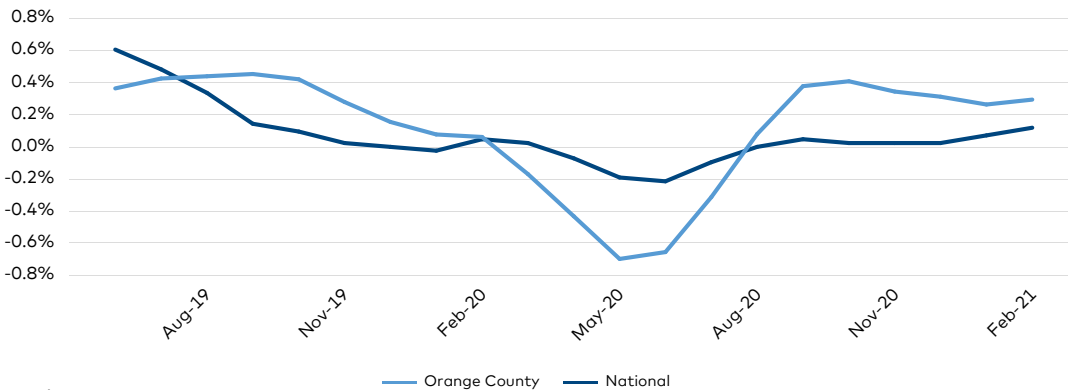


City: Westminster, Calif.
Buyer: Advanced Real Estate Services
Purchase Price: \$41 MM
Price per Unit: \$318,375

RENT TRENDS

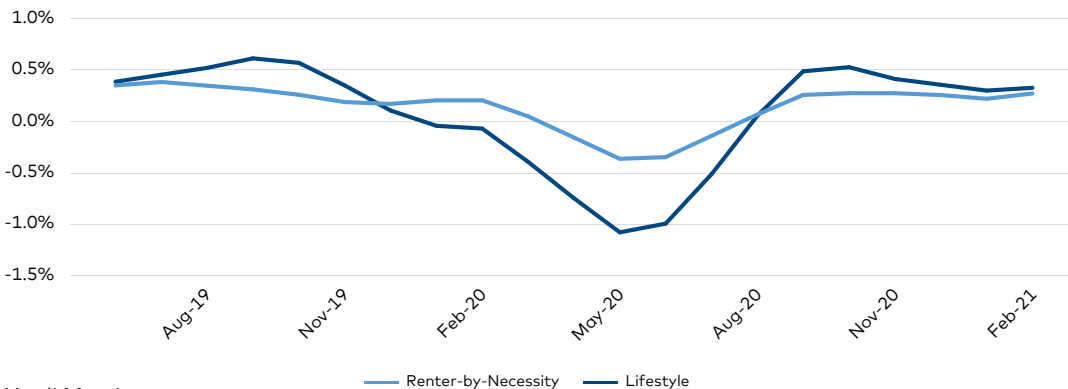
- ▶ Orange County rents rose 0.3% on a trailing three-month (T3) basis through February, 2021, 20 basis points above the 0.1% national rate. The average price was \$2,164, well above the \$1,399 U.S. figure.
- ▶ Rent growth took a dive in the months following the onset of the COVID-19 pandemic, but has since stabilized, outperforming U.S. averages starting in 2020's third quarter. Orange County rates were flat year-over-year through February, almost on par with the U.S. figure, which recorded a 10-basis-point downtick.
- ▶ Demand was even across asset classes, with rents rising 0.3% on a T3 basis through February in both the Lifestyle and Renter-by-Necessity segments, to \$1,958 and \$2,449, respectively. The occupancy rate in stabilized properties climbed 30 basis points in the 12 months ending in January, to 96.2%.
- ▶ The best-performing submarkets in Orange County were Yorba Linda (up 4.1% year-over-year through February to \$2,154) and Brea (3.9% to \$1,975). Newport Beach, the most expensive area, rounded out the podium (3.8% to \$2,920). In Santa Ana—the submarket with the largest construction pipeline—the average rent dropped 0.7% to \$1,973.
- ▶ Considering supply-demand dynamics and the overall economic context, we expect the average Orange County rent to rise 1.8% this year.

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

- ▶ The COVID-19 downturn slammed the employment market, inflating the jobless rate to as high as 14.7% in May 2020. For four consecutive months ending in July, the figure remained in the double digits. Things steadily improved, and Orange County's unemployment level slid to 6.4% in November, but preliminary data for January pointed to an increase to 7.4%, according to data from the Bureau of Labor Statistics. As expected, the race between an accelerating vaccine rollout and varying COVID-19 infection rates is what will ultimately underline the long-term recovery timeline.
- ▶ The job market experienced a 9.5% contraction in 2020, trailing the -6.8% national rate. All sectors

lost jobs except for mining, logging and construction, which expanded by 1.8%, or 1,900 jobs. The county has a diverse workforce, with a large segment in office-using industries that proved more resilient during the health crisis. Consequently, the county's main economic driver—professional and business services—shrank by just 4.7%.

- ▶ Leisure and hospitality took the hardest hit, down by 26.3% and shedding more than 60,000 positions last year. However, Disneyland, Orange County's largest employer, announced a gradual reopening starting in late April, which should visibly help the local economic recovery.

Orange County Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
15	Mining, Logging and Construction	108	7.0%
50	Information	22	1.4%
55	Financial Activities	115	7.4%
65	Education and Health Services	224	14.4%
80	Other Services	41	2.6%
90	Government	156	10.0%
40	Trade, Transportation and Utilities	254	16.4%
30	Manufacturing	145	9.3%
60	Professional and Business Services	318	20.5%
70	Leisure and Hospitality	169	10.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Orange County's population shrank by 0.3% in 2019, losing 10,276 residents, while the U.S. rate rose 0.3%.
- ▶ Since 2010, the metro's population has increased by 5.3%, trailing the national average, which marked a 6.1% expansion.

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

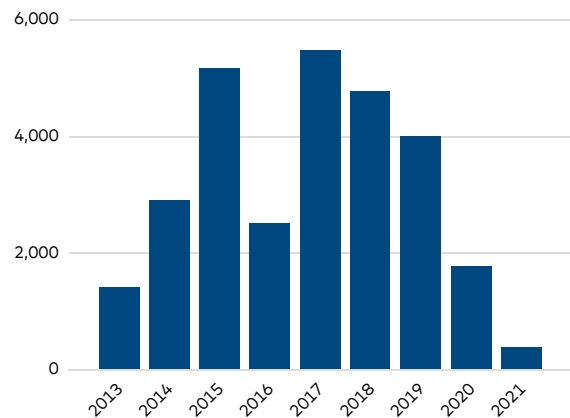
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ Developers had 6,547 units under construction as of February and another 27,407 apartments in the planning and permitting stages. In the first two months of this year, inventory expanded by 403 units, accounting for 0.2% of total stock, 10 basis points below the U.S. rate.
- ▶ The county's inventory expansion has been on a downward trend since 2017, and the pandemic put the brakes on construction last year. Developers brought online just 1,795 units, which was less than half the 2019 total. Since 2014, some 28,500 units have been added to the housing stock.
- ▶ Developers continue to respond to the spill-over effect of nearby Los Angeles County, meeting upscale demand. Nearly all apartments delivered last year were in the Lifestyle segment, with only 233 units in four fully affordable communities. Moreover, about two-thirds of the construction pipeline as of February consisted of upscale projects, with the rest encompassing 318 units in Renter-by-Necessity properties and 1,791 units in nine fully affordable communities.

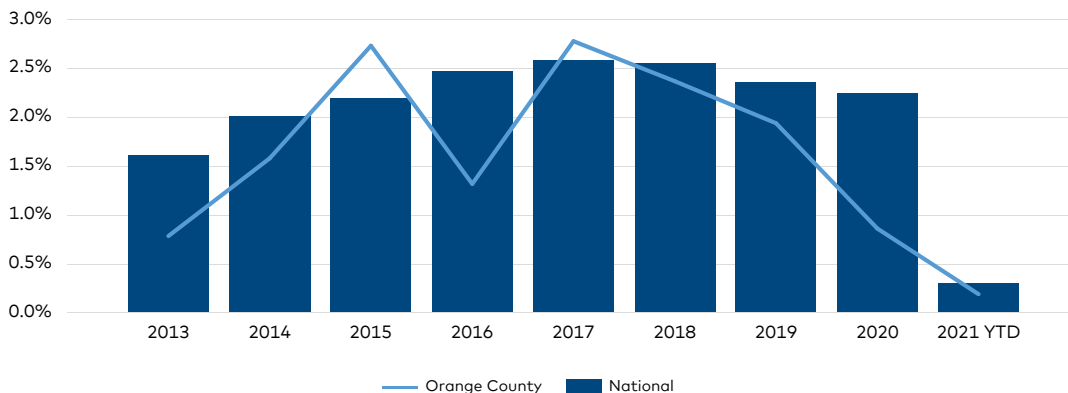
- ▶ Santa Ana is by far the most-active submarket, with 2,596 units underway, and is also home to the largest project under construction, Wermers Cos. 603-unit Elan. Anaheim Central (700 units under construction) and South Irvine (602 units) rounded out the top three. Since the beginning of 2018, nearly 4,000 units in 16 properties have come online across these three submarkets.

Orange County Completions (as of February 2021)



Source: Yardi Matrix

Orange County vs. National Completions as a Percentage of Total Stock (as of February 2021)



Source: Yardi Matrix

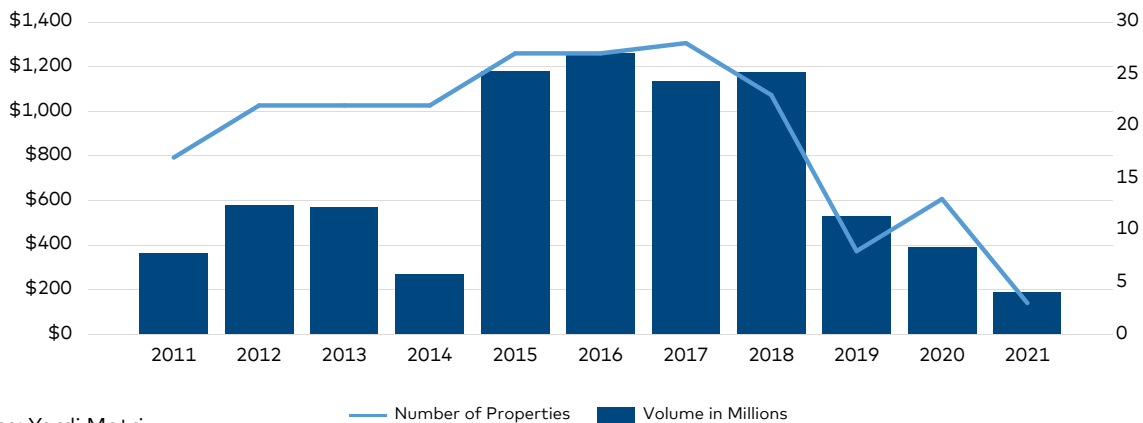
TRANSACTIONS

- ▶ In the first two months of 2021, transaction volume in Orange County amounted to \$189 million, which was already nearly half of last year's total. With three-quarters of the multifamily units that changed hands being in the Lifestyle segment, the price per unit rose 23.6% over the previous year, to \$361,918.
- ▶ Investor activity has been winding down since 2019, and the pandemic has accelerated the trend. In 2020, just \$393 million in apartments

traded in the county. Two deals occurred in the first quarter, with no further activity through September last year. Investment picked up pace in the final quarter, with sales in November and December totaling \$324 million.

- ▶ The largest deal in 2021 through February was California Statewide Communities Development Authority's \$160 million acquisition of Jefferson Platinum Triangle, a 400-unit Anaheim asset sold by JPI. The sale equated to \$400,000 per unit.

Orange County Sales Volume and Number of Properties Sold (as of February 2021)



Source: Yardi Matrix

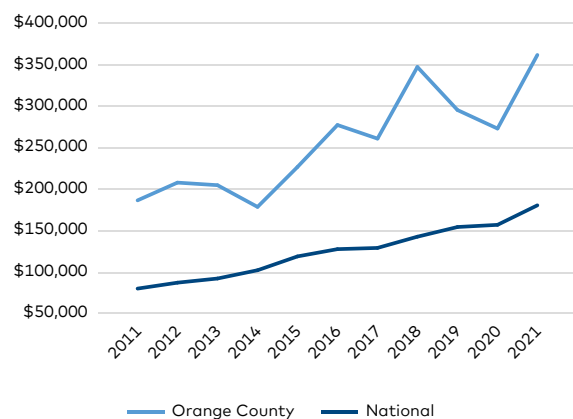
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Anaheim-Central	160
Santa Ana	106
Huntington Beach	63
Anaheim-West	51
Fullerton-South	50
Westminster	41
Buena Park-Cypress	29

Source: Yardi Matrix

¹ From March 2020 to February 2021

Orange County vs. National Sales Price per Unit



Source: Yardi Matrix

Top California Markets for Construction Activity

By Razvan Cimpean

One of the immediate effects at the start of the health crisis, as most states took action to prevent the spread of the virus in March and April, was that construction activity slowed down. While deliveries did not meet initial expectations in all markets, it's important to note that they only saw a 4.9 percent drop from the previous year, to more than 315,000 units, as states came out of lockdown, according to Yardi Matrix data.

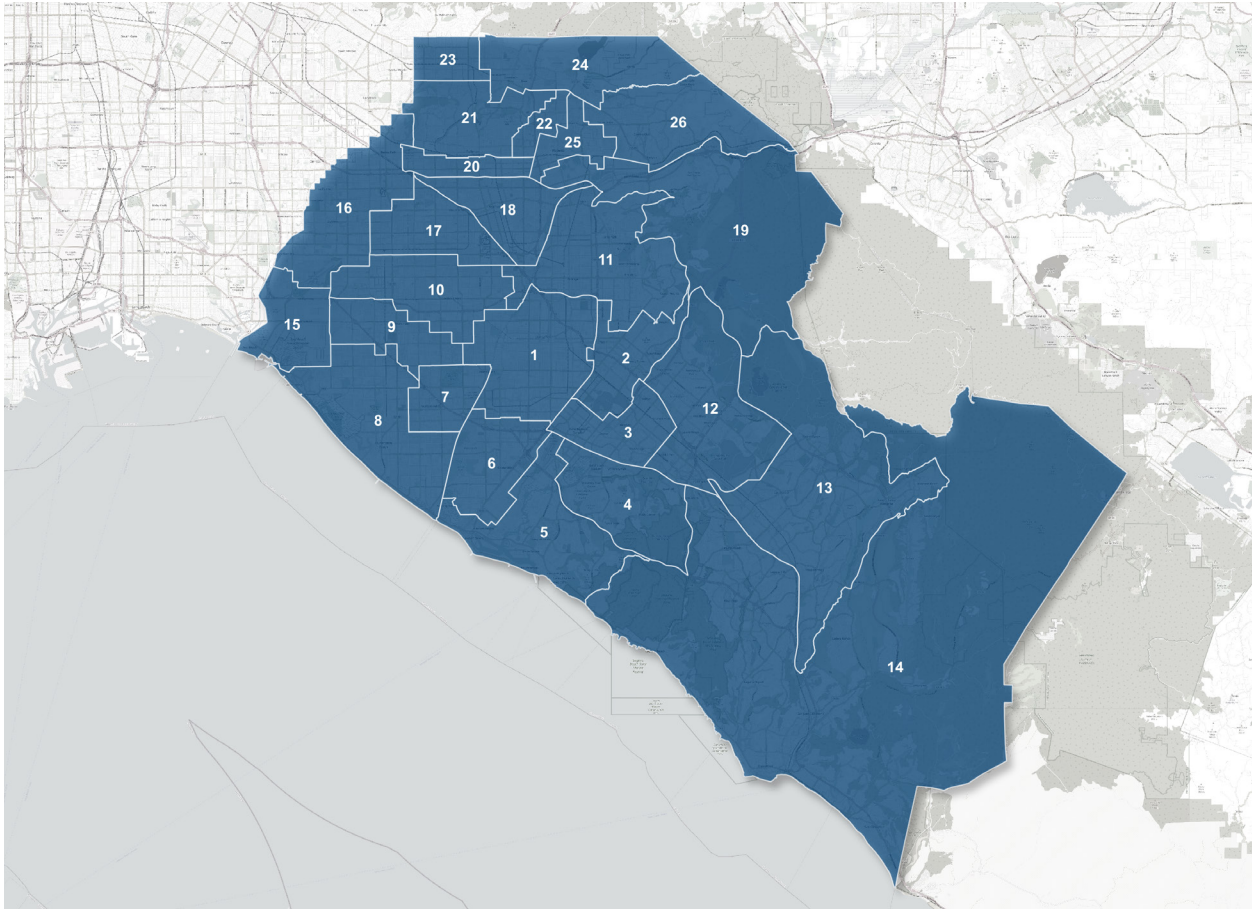
Rank	Market	Units Underway (as of January 2021)	Prop. Underway (as of January 2021)
1	Los Angeles	25,640	182
2	Bay Area—East and South Bay	24,019	103
3	San Francisco	9,497	54
4	San Diego	8,300	35
5	Orange County	6,686	27
6	Sacramento	4,701	23
7	Inland Empire	3,240	19
8	Central Valley	2,072	16
9	Central Coast	678	5

ORANGE COUNTY

Last year was challenging for Orange County's multifamily sector, following a sharp decline in investment interest and demand for new inventory the year before. The total sales volume reached a record low of \$282 million in 2020, a 47 percent drop from 2019 and the lowest level in two decades. Deliveries also nosedived 56.3 percent to 1,745 units, the lowest level since 2013. With coronavirus cases starting to fall by mid-January and some 170,000 people having received the vaccine in Orange County as of Feb. 12, the crisis is expected to have a less-severe impact on the metro this year compared to 2020.



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 December 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 December 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, December 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.

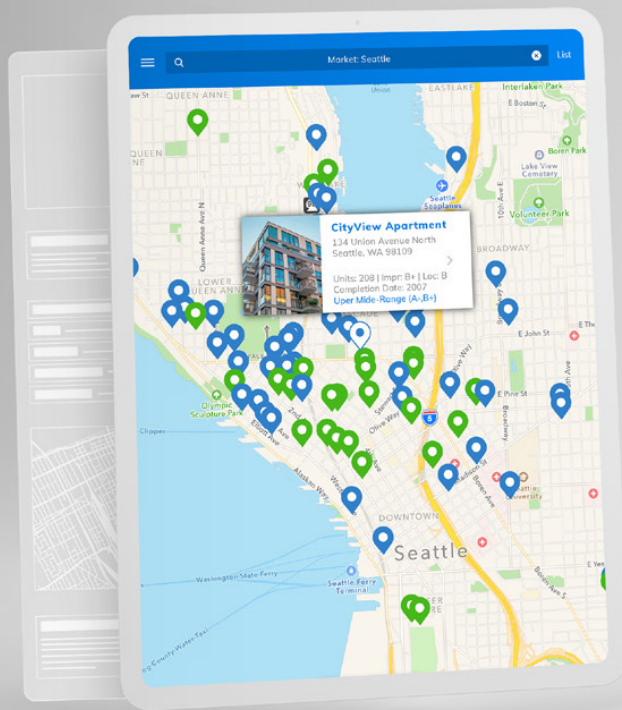
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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