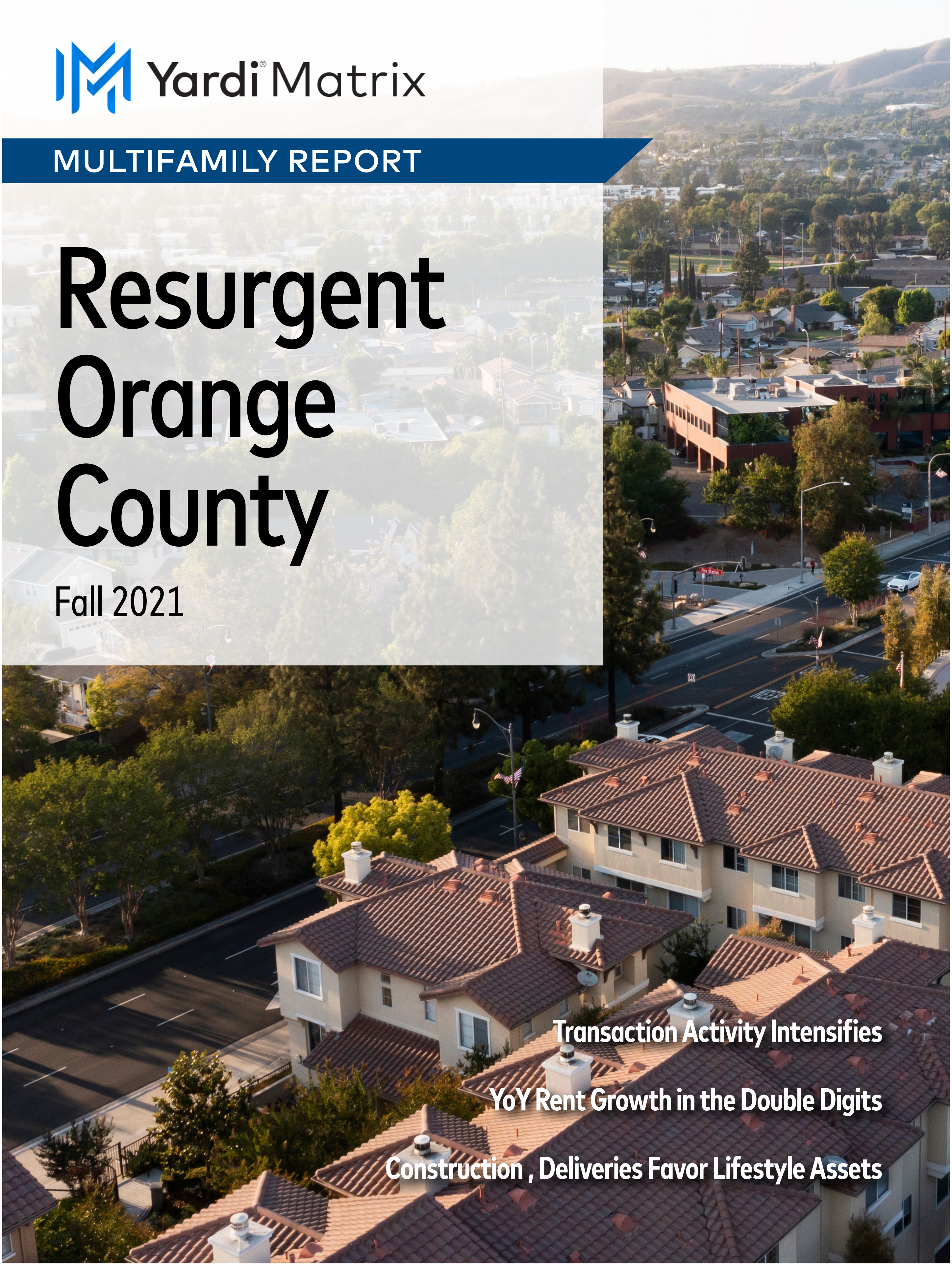
Yardi Matrix

MULTIFAMILY REPORT

Resurgent Orange County

Fall 2021



Transaction Activity Intensifies

YoY Rent Growth in the Double Digits

Construction , Deliveries Favor Lifestyle Assets

ORANGE COUNTY MULTIFAMILY

Yardi Matrix

High Demand, Low Supply Lead to Tight Market

Orange County's diverse economy has helped its rental market weather the challenges of the health crisis. In August 2020, rent growth turned positive, and since the start of 2021, rents have held an ascending trend, up 1.6% on a trailing three-month basis through August, to $2,343. Heightened demand was mirrored by the occupancy rate in stabilized properties, up 130 basis points in the 12 months ending in July, to 97.2%.

The unemployment rate improved to 6.3% in July, still trailing the U.S. rate, which stood at 5.4%. While nationally the employment market expanded by 0.3% in the 12 months ending in June, in Orange County it contracted by 1.0%, but still recovered 114,900 jobs combined across sectors. Mirroring the national trend, leisure and hospitality regained the bulk of jobs (up 39.3%, or 54,700 jobs), followed by the metro's largest sectors—professional and business services and trade, transportation and utilities—up a respective 6.8% and 7.3%, for 37,100 jobs combined.

Year-to-date deliveries totaled 1,572 units and the construction pipeline consisted of 7,120 units underway. Although development picked up, it still trails pre-pandemic levels. Meanwhile, $770 million in multifamily assets traded, for a price per unit that surpassed the $400,000 mark and set a record high.

Market Analysis | Fall 2021

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Recent Orange County Transactions

The Mix at CTR City

City: Anaheim, Calif.
Buyer: CMFA
Purchase Price: $115 MM
Price per Unit: $416,667

Joule La Floresta

City: Brea, Calif.
Buyer: Nuveen Real Estate
Purchase Price: $108 MM
Price per Unit: $530,025

Overlook at Anaheim Hills

City: Anaheim Hills, Calif.
Buyer: Avanath Capital Management
Purchase Price: $88 MM
Price per Unit: $335,249

University Village Fullerton

City: Fullerton, Calif.
Buyer: Champion Real Estate Co.
Purchase Price: $44 MM
Price per Unit: $444,150

RENT TRENDS

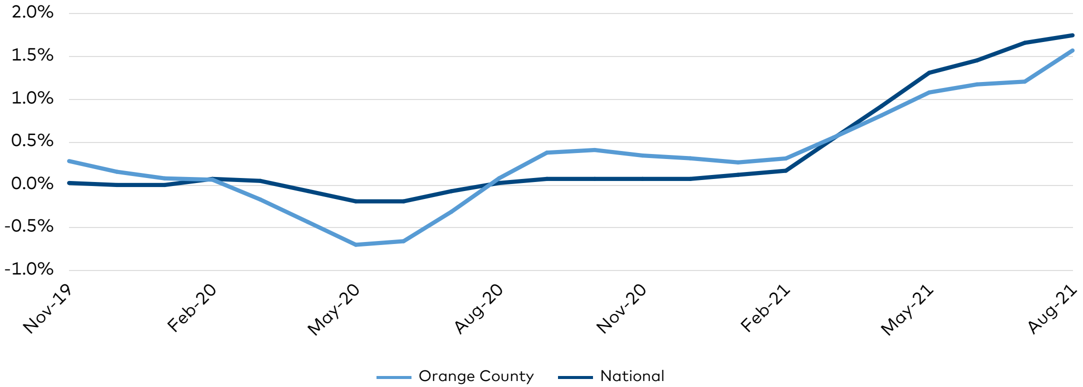
- Orange County's rental market had a steady performance in 2021, rising to 1.6% on a trailing three-month (T3) basis through August, for an average rent of $2,343. While the T3 rate is 10 basis points below the 1.7% national average—which rose to $1,539—on a year-over-year basis, rents in the metro posted an astounding 10.4% increase, 10 basis points above the U.S. rate. This exceptional performance is likely due to the spillover effect from Los Angeles, coupled with limited inventory expansion.

- Demand for apartments is even in Orange County. Rates for both asset classes rose by 1.6%, to $2,105, for Renter-by-Necessity units and to $2,671 for Lifestyle apartments. The occupancy rate in stabilized properties mirrors the rent growth pattern, highlighting a tight market. The rate rose 130 basis points in the 12 months ending in July, to 97.2%, up 130 basis points, to 97.5%, in the RBN segment and 120 basis points, to 96.7%, in Lifestyle assets.

- The number of submarkets with average rents below the $2,000 mark dropped from 12 to six in August 2020. Newport Beach remained the most expensive area, with rents rising 7.9% year-over-year, to $2,960. The strongest rent performances were recorded in South Orange County (13.8% to $2,520) and Yorba Linda ($2,360).

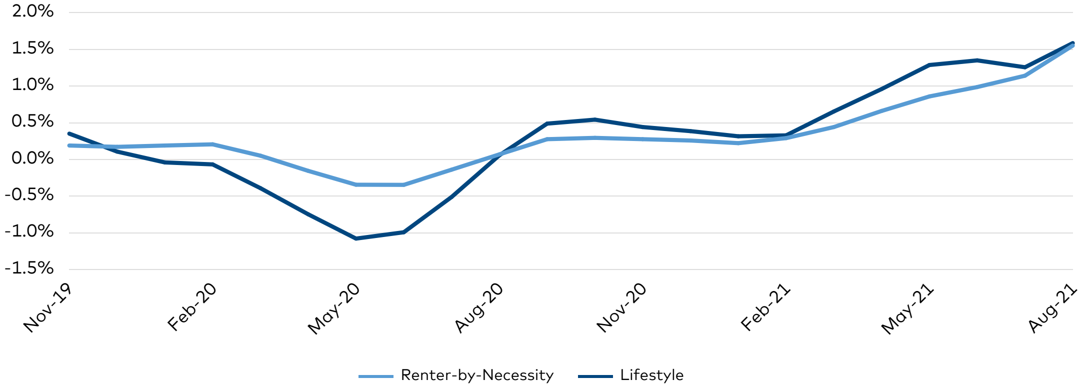
- With uncertainty still high across the metro, we anticipate rent growth to moderate and grow 8.0% by the end of the year.

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

- Orange County's unemployment rate improved to 6.3% in July, according to preliminary data from the Bureau of Labor Statistics. Meanwhile, the U.S. rate clocked in at 5.4%. Despite the steady recovery in the metro, uncertainty lingers, caused by rising numbers of delta variant cases.

- The job market posted a 1.0% contraction in the 12 months ending in June, and even though it is behind the national rate (up 0.3%), it reflects the metro's resilience, having recovered from -13.2% in September 2020. All employment sectors added jobs, for 114,900 positions combined during the period. Leisure and hospitality expanded by 39.3%, or 54,700 jobs, due to the ease of COVID-19 restrictions, as well as the reopening of restaurants and touristic attractions, including Disneyland.

- Orange County's main economic drivers—professional and business services and trade, transportation and utilities—were next in line, expanding by a respective 6.8% and 7.3%, for 37,100 jobs combined. Both are poised for sustained recovery—the first one is supported by the work-from-home model and will likely continue to grow, while the latter is fueled by the surge in e-commerce. Delivery Drivers Inc. announced plans to hire tens of thousands of drivers in SoCal by the end of the year.

Orange County Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	194	12.3%
60	Professional and Business Services	317	20.1%
40	Trade, Transportation and Utilities	250	15.8%
65	Education and Health Services	226	14.3%
80	Other Services	46	2.9%
90	Government	155	9.8%
30	Manufacturing	150	9.5%
15	Mining, Logging and Construction	104	6.6%
55	Financial Activities	114	7.2%
50	Information	24	1.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Orange County's population lost 8,835 residents in 2020, for a 0.3% decrease. Despite the pandemic, losses were fewer than in 2019, when 10,276 residents left.

- Meanwhile, the U.S. rate rose 0.4%, 10 basis points above the rate of 2019.

Orange County vs. National Population

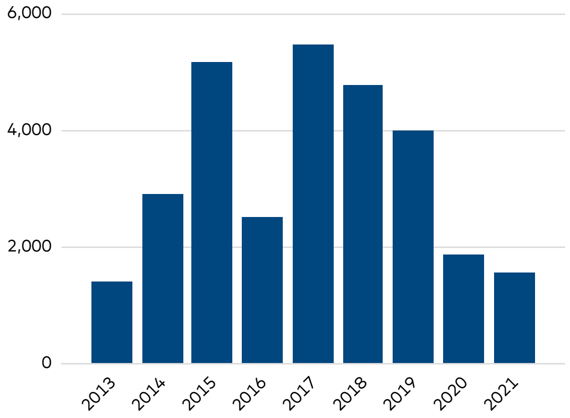
	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Orange County	3,179,950	3,185,968	3,175,692	3,166,857

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

SUPPLY

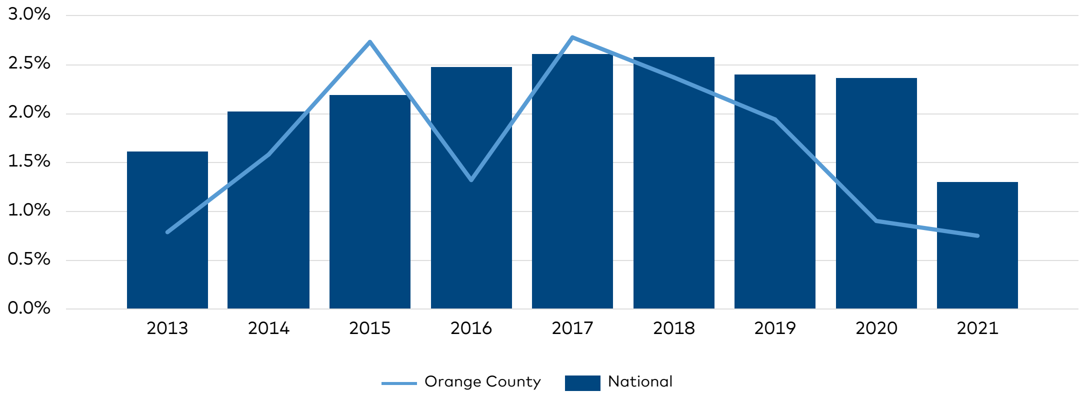
- Orange County had 1,572 units delivered in 2021 through August, 0.8% of existing stock and close to the total volume of 2020, when 1,875 units (0.9% of stock) came online. Nationally, the multifamily inventory expanded by 1.3% during the first eight months of the year.
- Developers had 7,120 units under construction and more than 29,000 units in the planning and permitting stages. Estimates show that another 1,949 units are slated to come online by the end of the year. Even if all underway projects are delivered at their anticipated completion date, the volume remains below pre-pandemic levels.
- Both recent deliveries and the construction pipeline comprise mostly Lifestyle assets: newly delivered stock consists of 523 units in three fully affordable communities and 1,049 units in four Lifestyle projects. The under-construction pipeline had 1,291 units in seven fully affordable properties, 5,607 Lifestyle units and just one 224-unit Renter-by-Necessity project.
- Santa Ana remained the most-active submarket with 2,234 units underway and 731 units delivered so far in 2021. It also houses the largest delivery, the 418-unit Metro East Senior Park, a fully affordable, age-restricted asset co-owned by AMG, Jamboree Housing and The Pacific Cos. South Irvine followed with 1,478 units under construction, as well as the largest project underway, the 876-unit Trilogy, a Garden Communities asset slated for completion in 2023.

Orange County Completions (as of August 2021)



Source: Yardi Matrix

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

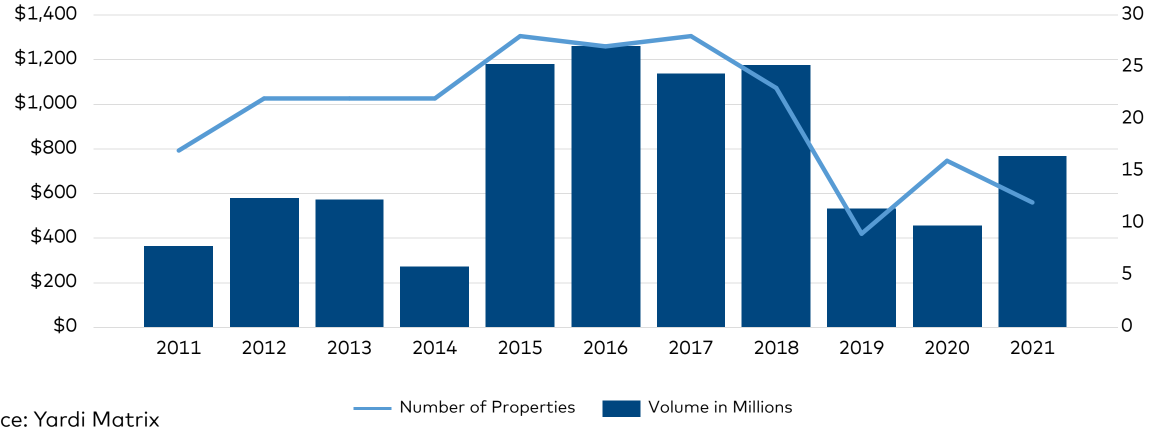


Source: Yardi Matrix

TRANSACTIONS

- In 2021 through August, $770 million in multifamily assets traded in Orange County, far outpacing the $84 million volume recorded during the same period last year, and well above the $457 million and $532 million totals recorded in 2020 and 2019, respectively.
- Investor interest has been equally distributed across asset classes: of the 12 properties that traded, six were Lifestyle assets and six were RBN projects. The price per unit nearly doubled year-over-year to $400,865, which is more than double the $176,903 national average figure.
- Transaction volume was highest in Anaheim-Central ($443 million in the 12 months ending in August). The submarket also housed the largest deal of the year through August—California Statewide Communities Development Authority's $160 million acquisition of Jefferson Platinum Triangle. The largest price per unit was paid by Nuveen Real Estate for Joule La Floresta: $530,025.

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



Source: Yardi Matrix

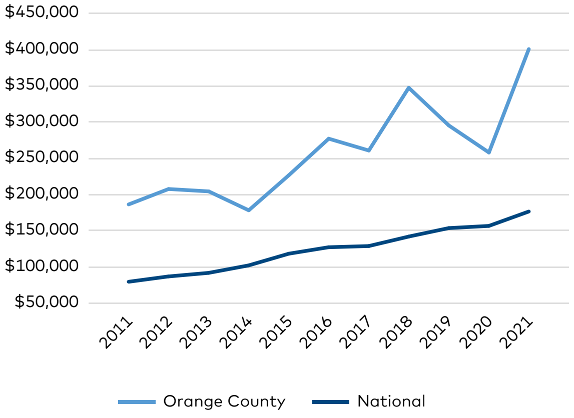
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Anaheim - Central	443
Brea	108
Santa Ana	106
Anaheim Hills	88
Huntington Beach	63
South Irvine	58
Anaheim - West	51

Source: Yardi Matrix

[1] From September 2020 to August 2021

Orange County vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

MULTI-HOUSING NEWS

data by Yardi Matrix

Top California Markets for Multifamily Deliveries

By Lucia Morosanu

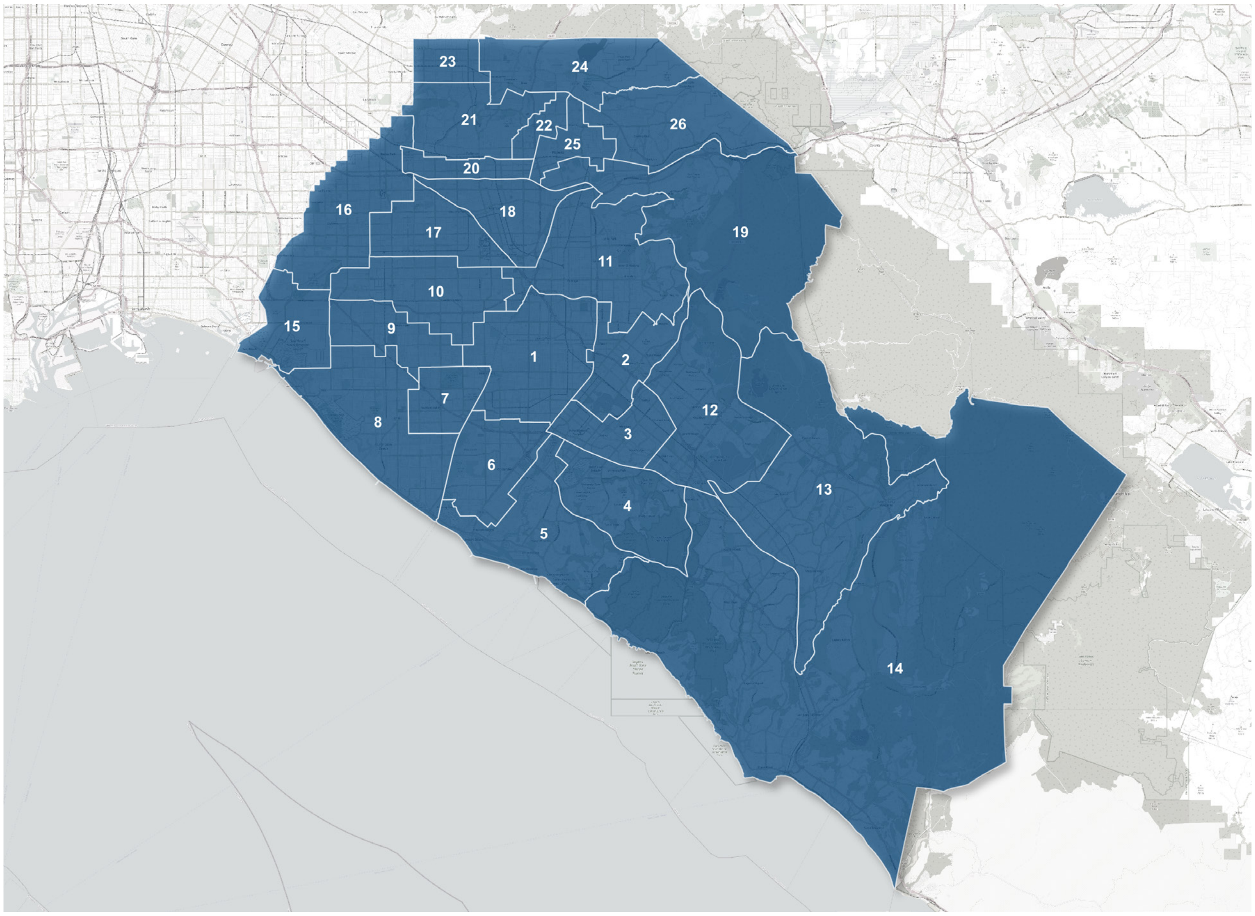
Construction in 2020 has struggled, as stay-at-home orders imposed at the beginning of the year to help slow down the spread of COVID-19 have generated delays in construction starts and permitting. Additionally, this year California had to deal with the flight from more expensive metros of many big companies such as Oracle, Tesla, Hewlett Packard Enterprise and Palantir.

Rank	Metro	Units Completed	Projects Completed	Percentage of Stock
1	Metro Los Angeles	3,287	13	1.7%
2	Bay Area – South Bay	2,052	6	1.6%
3	Bay Area – East Bay	1,524	8	1.1%
4	Orange County	1,103	5	0.5%
5	San Diego	740	2	0.4%
6	San Fernando Valley – Ventura County	452	3	0.3%
7	Eastern Los Angeles County	436	2	0.4%
8	Central Valley	333	2	0.3%
9	San Francisco – Peninsula	317	2	0.3%
10	Inland Empire	136	1	0.1%

ORANGE COUNTY

Orange County is the first entry on the list to break through the 1,000-unit mark, with 1,103 units delivered year-to-date in five communities. That accounts for 0.5 percent of total existing stock. By the end of 2021, the market is anticipated to add another 2,118 units across 12 properties. That's significantly more than last year, when 1,900 units were delivered in 10 communities. The 483-unit Broadstone Atlas in Santa Ana, Calif., was the largest project to be delivered.

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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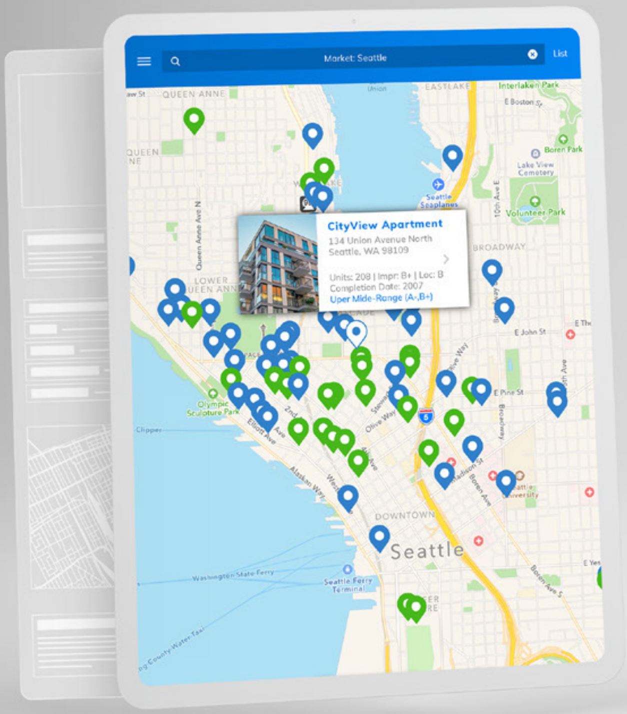

CityView Apartment
134 Union Avenue North
Seattle, WA 98109

Units: 208 | Impr: B+ | Loc: B
Completion Date: 2007
Uper Mide-Range (A-,B+)

Yardi Matrix Multifamily provides accurate data on **19+ million units**, covering over **90% of the U.S. population**.

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