



MULTIFAMILY REPORT

# Orange County's Comeback

April 2022

**Rent Growth Outperforms Nation**

**Occupancy Climbs Close to 98.0%**

**Transaction Activity Marks All-Time High**

# ORANGE COUNTY MULTIFAMILY



## Demand Stabilizes Fundamentals

Following a harrowing 2020, Orange County showed remarkable resilience amid the fallout from the pandemic and began a steady recovery, especially in the second half of 2021. The metro's solid fundamentals gave the market a strong start in 2022, with rent growth, economic expansion and occupancy all outperforming national levels. Rents rose 0.9% on a T3 basis through February, to \$2,614, while occupancy closed at the 98.0% mark.

Orange County's unemployment stood at 4.2% in January, trailing the U.S. rate by 40 basis points, but leading the state of California (5.7%), Sacramento (5.0%) and overall Los Angeles (5.7%). The job market expanded by 7.2% in the 12 months ending in December, well above the 4.4% national rate. Only the financial activities sector contracted (-1,600 jobs). Professional and business services—the market's largest sector—expanded by 19,600 positions. Announced company expansions are likely to sustain the economic recovery, headlined by ventures like Overair and Rivian.

Developers delivered 381 units through February, following the 2,100 apartments finalized in 2021. Another 8,799 units were underway. Meanwhile, transaction activity remained elevated, with a volume of \$206 million this year through February, following the \$2.2 billion all-time high in 2021. The price per unit rose 66.9% year-over-year through December, to \$430,965.

## Market Analysis | April 2022

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### Recent Orange County Transactions

#### The Bryant at Yorba Linda



City: Yorba Linda, Calif.  
Buyer: Interstate Equities Corp.  
Purchase Price: \$206 MM  
Price per Unit: \$513,750

#### Valentia by Windsor



City: La Habra, Calif.  
Buyer: GID  
Purchase Price: \$183 MM  
Price per Unit: \$544,776

#### AmpliFi



City: Fullerton, Calif.  
Buyer: Nuveen Real Estate  
Purchase Price: \$168 MM  
Price per Unit: \$579,312

#### Vilara

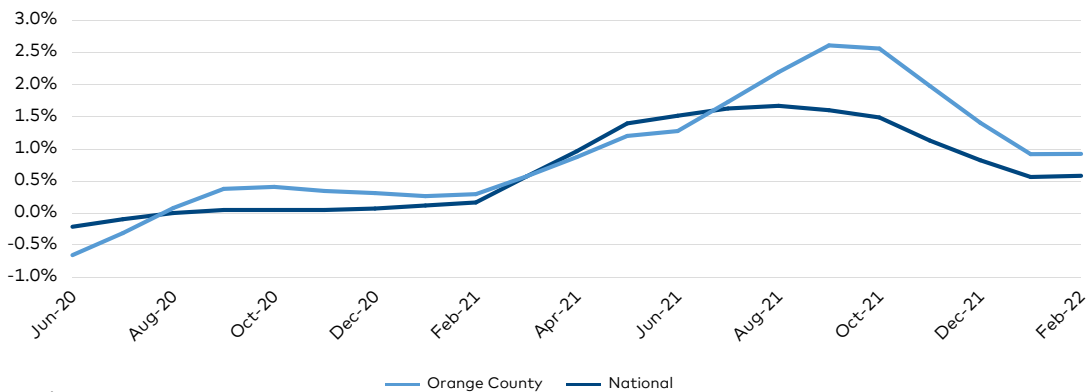


City: Laguna Niguel, Calif.  
Buyer: Virtu Investments  
Purchase Price: \$163 MM  
Price per Unit: \$545,151

## RENT TRENDS

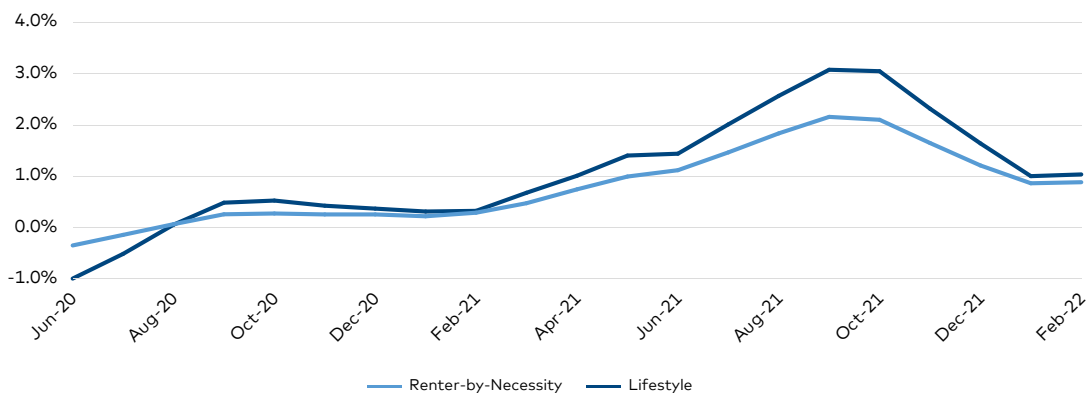
- ▶ Orange County rents rose 0.9% on a trailing three-month (T3) basis through February, outperforming the U.S. rate by 30 basis points. On a year-over-year basis, Orange County rents rose 20.6%, to \$2,614, while the U.S. figure increased by 15.4%, to \$1,628.
  - ▶ Since July last year, the metro's rent performance has edged the nation's. Moreover, for eight consecutive months, the average rent increase in the metro was above the 1.0% mark, with four months surpassing the 2.0% threshold.
  - ▶ Throughout 2021, demand for Lifestyle units was stronger, but the gap between the quality segments is progressively closing: On a T3 basis through February, Lifestyle rents rose 1.0% to \$3,051, just 10 basis points above the Renter-by-
- Necessity rate, which pushed the average rent in the segment to \$2,296.
- ▶ The occupancy rate in stabilized properties paints an inverse picture: RBN occupancy rose 160 basis points in the 12 months ending in January, to 98.4%, while Lifestyle occupancy increased by 80 basis points, to 97.1%. Overall, the rate clocked in at 97.8%, signaling one of the tightest rental markets in the country.
  - ▶ All 26 submarkets tracked by Yardi Matrix posted double-digit annual rent increases. Newport Beach remained the most expensive area, with rents up 19.5%, to \$3,490, followed by West Irvine, which also marked the best rent performance, up 32.1%, to \$3,088.

### 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 started the year with unemployment at 4.2%, a solid 250-basis-point improvement year-over-year, according to preliminary data from the Bureau of Labor Statistics. The rate places the metro 40 basis points below the U.S. average and 30 basis points behind San Francisco, but outperformed the state of California (5.7%), Sacramento (5.0%) and Los Angeles (5.7%).
- The job market expanded by 7.2% in the 12 months ending in December, well above the 4.4% national rate. Following the contraction registered in 2020, the local economy has made some good strides toward recovery, outperforming the U.S. rate for the fifth consecutive month.
- Of the 105,600 jobs added during the period, leisure and hospitality accounted for more than half (64,100 jobs). The metro's largest sector—professional and business services—came in second with the addition of 19,600 positions (6.4%). Only financial activities contracted (-1,600 jobs).
- Orange County shows promising signs of sustaining the recovery. The local economy is being propped up by companies like Overair, which announced the expansion of its headquarters and its plans to hire 1,000 employees over the next three to five years, and Rivian, the Amazon-backed electric truck manufacturer that had one of the largest IPOs in years.

### Orange County Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	214	13.1%
60	Professional and Business Services	327	20.0%
80	Other Services	49	3.0%
65	Education and Health Services	232	14.2%
30	Manufacturing	152	9.3%
90	Government	159	9.7%
40	Trade, Transportation and Utilities	257	15.8%
50	Information	25	1.5%
15	Mining, Logging and Construction	103	6.3%
55	Financial Activities	114	7.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- Orange County's population contracted by nearly 0.3% in 2020, or 8,835 residents, but the decrease softened from 2019, when the metro lost 10,276 residents.
- Between 2010 and 2020, Orange County's population increased by 5.0%, trailing the 6.5% U.S. rate.

### 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

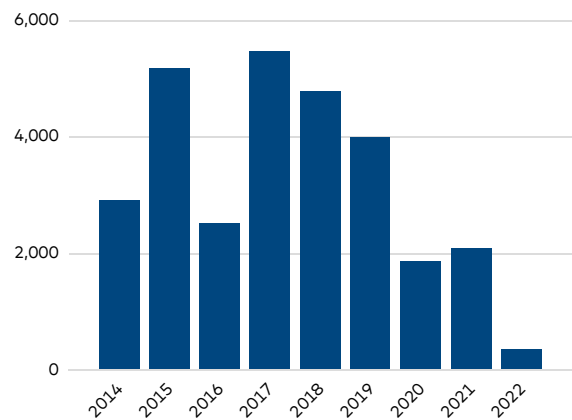
Sources: U.S. Census, Moody's Analytics

## SUPPLY

- ▶ Orange County's construction pipeline had 8,799 units under construction as of February, and another 31,100 units in the planning and permitting stages.
- ▶ Developers added 381 units in two Lifestyle properties in the first two months of the year, accounting for 0.2% of total stock, roughly on par with the U.S. average.
- ▶ This comes on the heels of 2,100 units delivered in 2021, or 1.0% of stock, 10 basis points more than the volume in 2020. Supply expansion has been on a downward trend since the 2017 peak, when 5,480 units came online.
- ▶ Developers maintained focus on delivering high-end projects—the Lifestyle segment accounted for roughly 75% of the properties underway. Another 16% consisted of fully affordable communities, and the remaining—545 units in two properties—were market-rate apartments.
- ▶ Development activity in the top three submarkets accounted for more than 60% of the total pipeline: Santa Ana (2,183 units), South Orange County (1,781 units) and South Irvine (1,478 units).

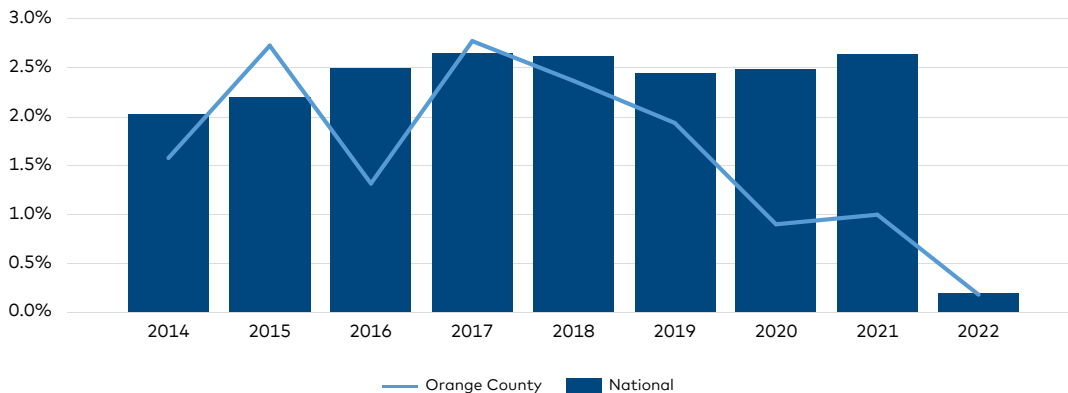
- ▶ The largest project under construction in early 2022 was Promenade at Irvine Spectrum, Irvine Co.'s 1,781-unit Lifestyle project in Irvine. The development includes 7,300 square feet of retail space and is slated for completion in the final quarter of 2024.

**Orange County Completions** (as of February 2022)



Source: Yardi Matrix

**Orange County vs. National Completions as a Percentage of Total Stock** (as of February 2022)



Source: Yardi Matrix

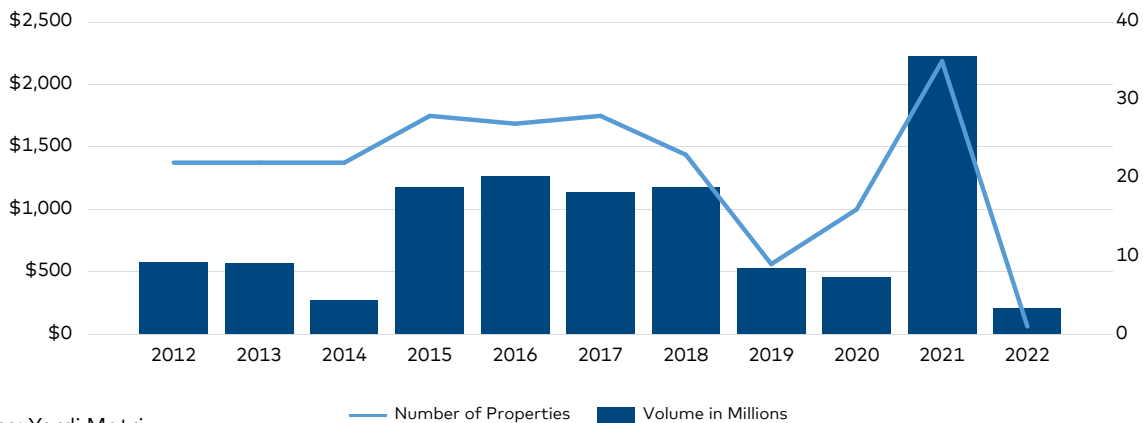
## TRANSACTIONS

- ▶ One Lifestyle asset traded in Orange County in 2022 through February for \$206 million. Interstate Equities Corp. acquired the 400-unit asset—The Bryant at Yorba Linda—from Resource Real Estate for \$513,750 per unit, with aid from a \$153 million loan originated by Invesco Real Estate.
- ▶ Investment activity marked an all-time high in 2021, when overall volume surpassed \$2.2 billion. This increased investor interest helped

property values grow, with activity divided nearly evenly between quality segments. Consequently, the price per unit rose by a significant 66.9% year-over-year through December, to a new high—\$430,965, more than double the \$192,222 U.S. average.

- ▶ Last year's per-unit price hike came after two years of price depreciation and surpassed the previous benchmark registered in 2018 when the figure stood at \$347,410.

### Orange County Sales Volume and Number of Properties Sold (as of February 2022)



Source: Yardi Matrix

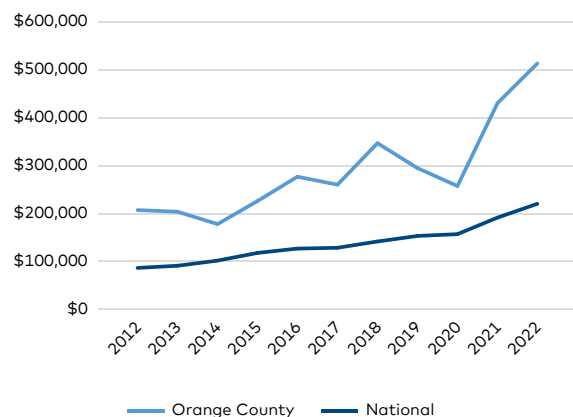
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Fullerton–North	237
Huntington Beach	235
Anaheim Hills	234
South Orange County	215
Yorba Linda	206
La Habra	183
Santa Ana	170

Source: Yardi Matrix

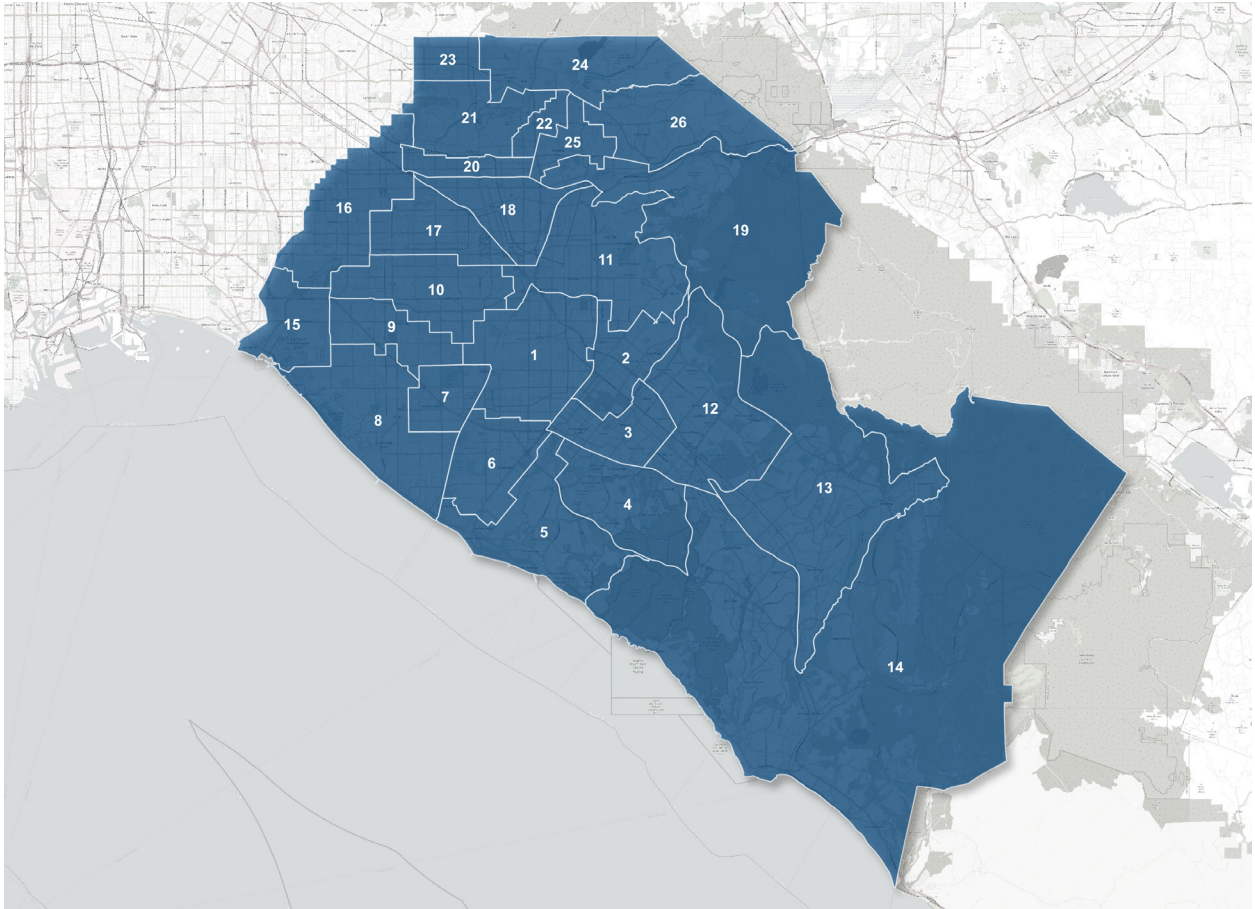
<sup>1</sup> From March 2021 to February 2022

### Orange County vs. National Sales Price per Unit



Source: Yardi Matrix

## 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.

To learn more about Yardi® Matrix and subscribing, please visit [www.yardimatrix.com](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.





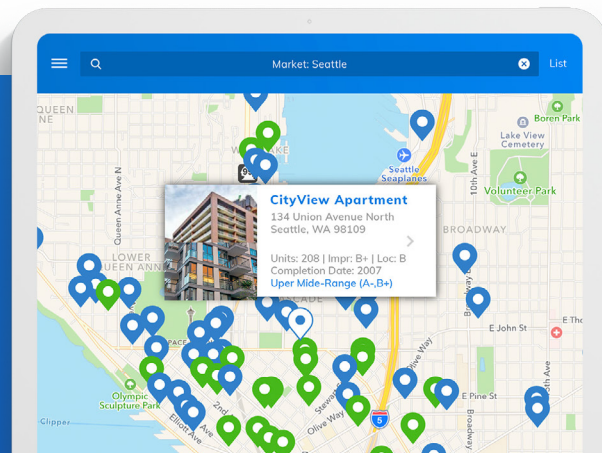
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