

An aerial photograph of a city skyline, likely Orange County, California. The image shows a dense cluster of modern high-rise buildings with glass facades and balconies. In the background, there are rolling hills and mountains under a clear blue sky. The foreground is filled with lush green trees and some lower-level commercial buildings. The overall scene is bright and sunny, suggesting a clear day.

**YARDI**<sup>®</sup> Matrix

# Orange County's Bright Outlook

Multifamily Winter Report 2017

**Rent Growth Tops Nation**

**Unemployment Drops to 9-Year Low**

**Sales Volume, Prices Hit Cycle Peak**

## Market Analysis

Winter 2017

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## Values Continue to Soar

Renter demand remains elevated in Orange County, fueled by a rapidly expanding economy and population gains. Large companies, as well as startups, are drawn to the market's highly educated labor pool. The tech sector is becoming particularly strong, generating an increase in high-paying professional jobs. Hospitality employment is also rising, sustained by record tourism activity. Meanwhile, more and more construction cranes are cropping up throughout the county, especially for office and housing projects, leading to an almost complete recovery of the construction jobs that were lost during the recession.

The high barrier to homeownership combined with a limited supply of new apartments has pushed multifamily occupancy to one of the highest levels in the country. Consequently, rents have risen to unsustainable levels for many residents. Nevertheless, Orange County is still more affordable than some of its West Coast peers, including the Bay Area, West Los Angeles and Silicon Valley.

The market's stability and revenue growth opportunities are drawing both local and foreign investors. Transaction volume in 2016 climbed to approximately \$1.2 billion, its highest level in the current cycle. The above-trend job growth coupled with the tepid supply of new units will bolster demand for apartments, leading to a rent increase of 6.5% in 2017.

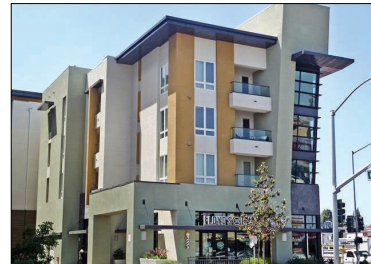
## Recent Orange County Transactions

### Axiom Tustin



City: Tustin, Calif.  
Buyer: Raintree Partners  
Purchase Price: \$164 MM  
Price per Unit: \$260,430

### Elan Huntington Beach



City: Huntington Beach, Calif.  
Buyer: LaSalle Investment Management  
Purchase Price: \$131 MM  
Price per Unit: \$478,102

### Amerige Pointe



City: Fullerton, Calif.  
Buyer: TA Realty  
Purchase Price: \$115 MM  
Price per Unit: \$393,836

### Camden Parkside



City: Fullerton, Calif.  
Buyer: Advanced Real Estate Services  
Purchase Price: \$99 MM  
Price per Unit: \$235,154

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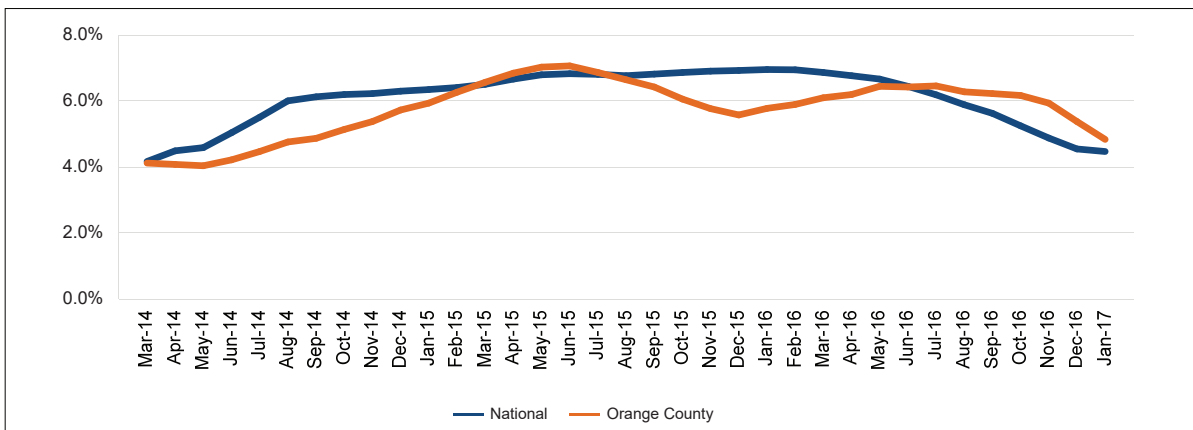
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## Rent Trends

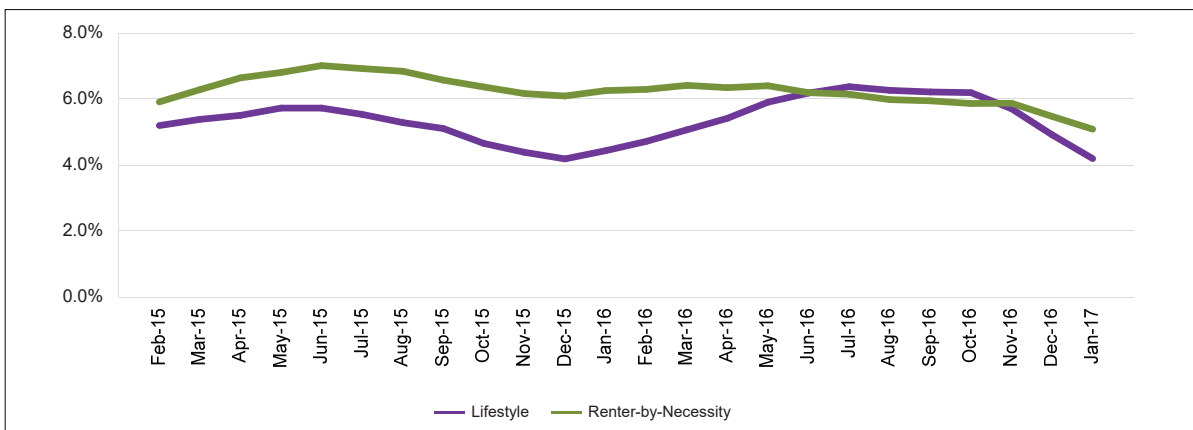
- Rents in Orange County rose 4.8% year-over-year through January, outpacing the 4.6% national growth rate. Monthly rents stood at \$1,947, significantly higher than the \$1,315 national average. Orange County's homeownership rate is relatively low, in part because of the cost of single-family housing, which will help drive demand for apartments as the economy improves. Occupancy for stabilized rental properties was at 97% as of December, one of the highest rates across the U.S.
- Rents in the working-class Renter-by-Necessity segment rose 5.0% to \$1,749, while the Lifestyle segment advanced by 4.2% to \$2,267. Overall, rent growth has slightly decelerated in recent months, mirroring the national pattern. A strong absorption of the new units coming online as a result of an increase in the number of professional, education, health and hospitality jobs is expected to underpin a high demand for apartments in Orange County, pushing up rents by 6.5% in 2017.
- Rent growth is led by the coastal submarkets and Anaheim, which boast theme parks, golfing, high-end shopping and water sports. Seal Beach, which rose 9.9% to \$2,123, is situated at the mouth of Alamitos Bay, providing access for boats entering the Pacific Ocean from Huntington Harbor. Newport Beach, where rents rose 8% to \$2,560, is easily accessible due to its proximity to John Wayne/Orange County Airport.

### Orange County vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

### Orange County Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

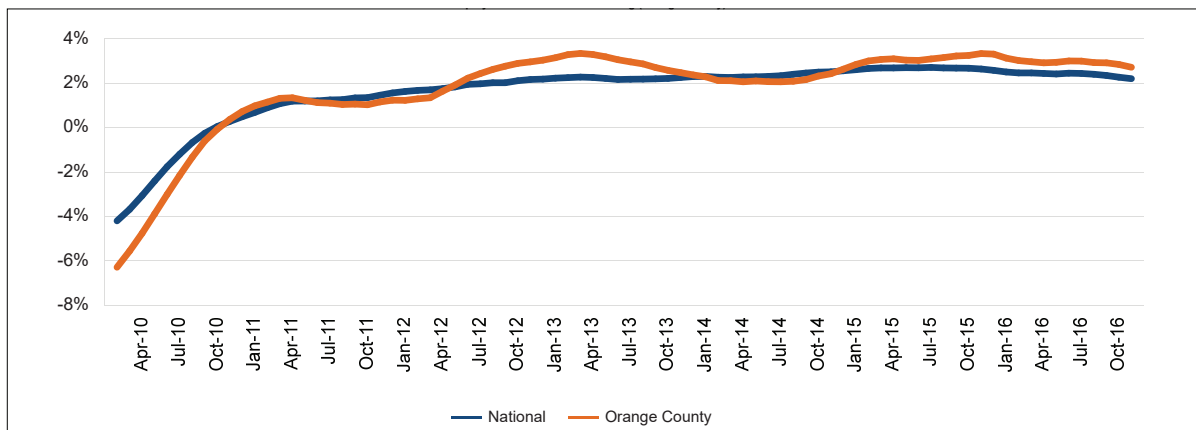


Source: YardiMatrix

## Economic Snapshot

- Orange County added 38,300 jobs through November, up 2.7% year-over-year, higher than the 2.2% national average. The unemployment rate decreased to 3.7% during the same month, lower than the 4.3% rate recorded in November 2015. The 3.5% unemployment rate as of December 2016 marked a post-recession low.
- Growth was led by professional and business services, which added 10,400 positions. Company expansions and relocations included Mazda's move to the new 200 Spectrum Center Drive in Irvine, where it shares space with workspace giant WeWork and game communications leader Curse Inc. The construction sector is also strong, especially for office and housing projects.
- Meanwhile, leisure and hospitality jobs are expanding, sustained by record tourism. Anaheim, home of Disney's first theme park, welcomed some 23 million visitors in 2016, breaking its record for the fourth consecutive year. Disneyland recently relaunched its Main Street Electrical Parade and plans more upgrades, including a summer launch of a Marvel superhero ride and a 2019 introduction of a \$1 billion, 14-acre Star Wars land.
- The metro's office sector is a landlord's market, due to limited availability. Steady job growth and a more diversified economy have created a strong demand for office space, pushing lease rates near all-time highs. As new product comes online, the aggressive increase is expected to decelerate this year, according to CBRE.

### Orange County vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

### Orange County Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	301	18.6%	10,400	3.6%
65	Education and Health Services	211	13.1%	9,100	4.5%
15	Mining, Logging and Construction	102	6.3%	5,400	5.6%
70	Leisure and Hospitality	213	13.2%	4,500	2.2%
40	Trade, Transportation and Utilities	271	16.8%	3,600	1.3%
90	Government	166	10.3%	3,300	2.0%
80	Other Services	51	3.2%	2,400	4.9%
50	Information	26	1.6%	400	1.6%
55	Financial Activities	117	7.2%	-300	-0.3%
30	Manufacturing	157	9.7%	-500	-0.3%

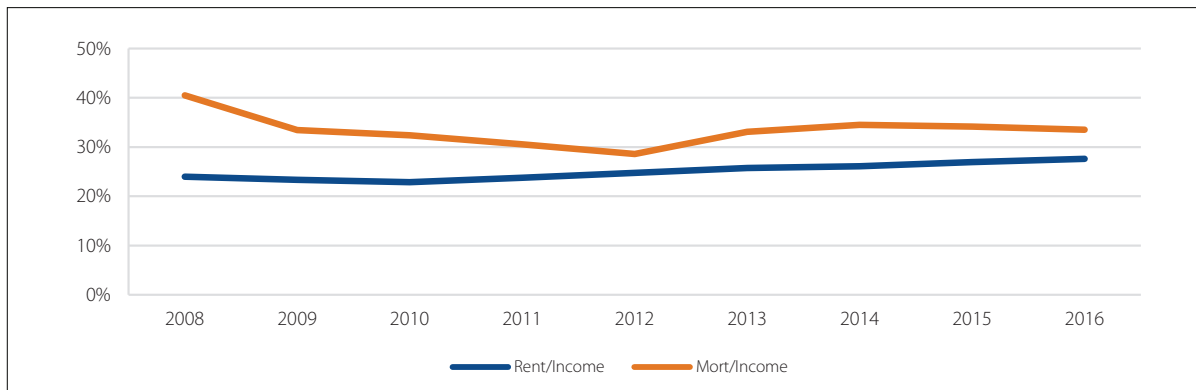
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

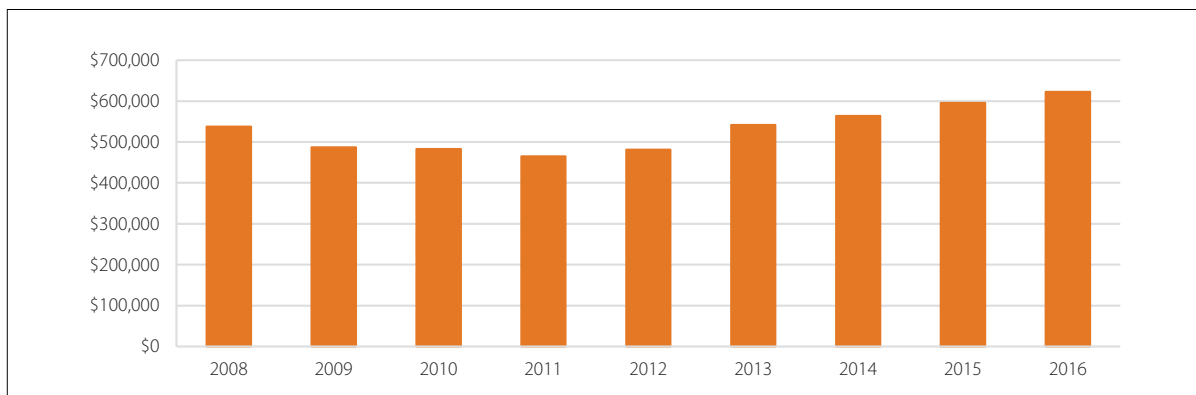
- The median home price in Orange County hit a cyclical high of \$622,900 in 2016, with the average mortgage accounting for 34% of the area's median income. The average rent, which reached \$1,950 as of December, is high in a national context, but remains more affordable, accounting for 28% of the area's median income.
- The metro is among the most expensive housing markets in the U.S., but demand is strong, sustained by Asian buyers and an increase in high-paying professional jobs. By one measure, only one in five households could comfortably finance a home purchase in the fourth quarter of 2016, according to the California Association of Realtors. Yet houses sold in Orange County last year hit the fastest purchasing pace since 2006.

### Orange County Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

### Orange County Median Home Price



Source: Moody's Analytics

### Population

- The metro added nearly 25,000 residents in 2015, a 0.8% increase, in line with the national average.
- The population has risen by more than 113,690 residents since 2011.

### Orange County vs. National Population

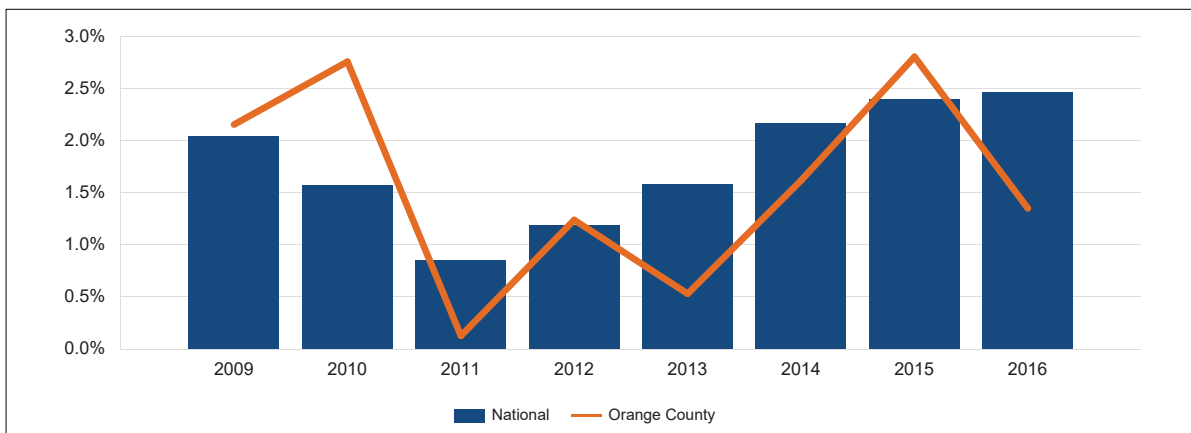
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Anaheim-Santa Ana-Irvine, Calif., Metropolitan Division	3,056,084	3,089,343	3,120,180	3,144,961	3,169,776

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

## Supply

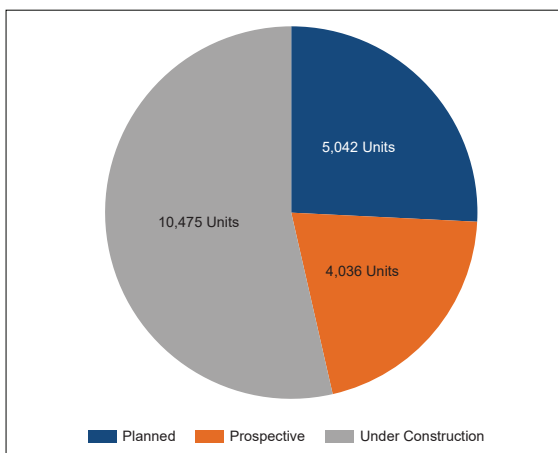
- Deliveries in Orange County slowed to 2,500 units in 2016, a significantly lower level than in 2015, when more than 5,300 units came online. Last year's new supply represented a 1.3% increase, well below the 2.4% national growth rate.
- The slowdown was temporary, though, as some projects that were slated for completion in 2016 were delayed. More than 10,000 units were under construction as of January, marking a record high in recent years. Another 9,000 apartments were in the planning stages, bringing the total pipeline to 19,000 units.
- Construction activity was especially strong in West Irvine, Anaheim – Central, South Irvine and South Orange County. Demand for rentals is high in Irvine, which ranks as one of the fastest-growing cities in the country for its number of residents, U.S. census data shows. Many newcomers, including foreigners, are drawn to the area's well-known schools. The largest rental project is by far Elements, which is set to bring 1,600 new apartments to West Irvine, near John Wayne Airport.
- The high barrier to homeownership continues to push rents up, pricing out residents who seek affordable housing. This issue affects the senior population as well, which is expected to double over the next 25 years.

### Orange County vs. National Completions as a Percentage of Total Stock (as of January 2017)



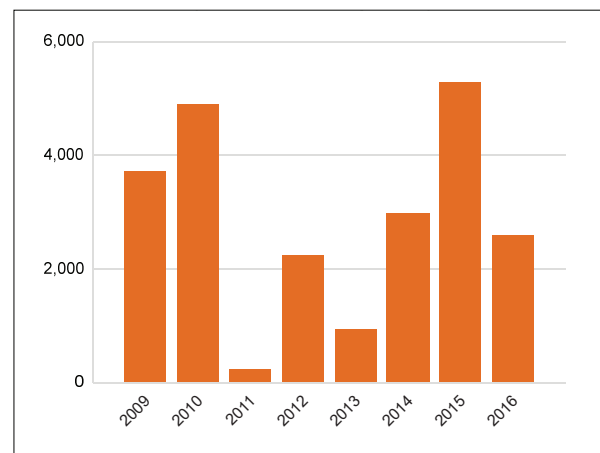
Source: YardiMatrix

### Development Pipeline (as of January 2017)



Source: YardiMatrix

### Orange County Completions (as of January 2017)

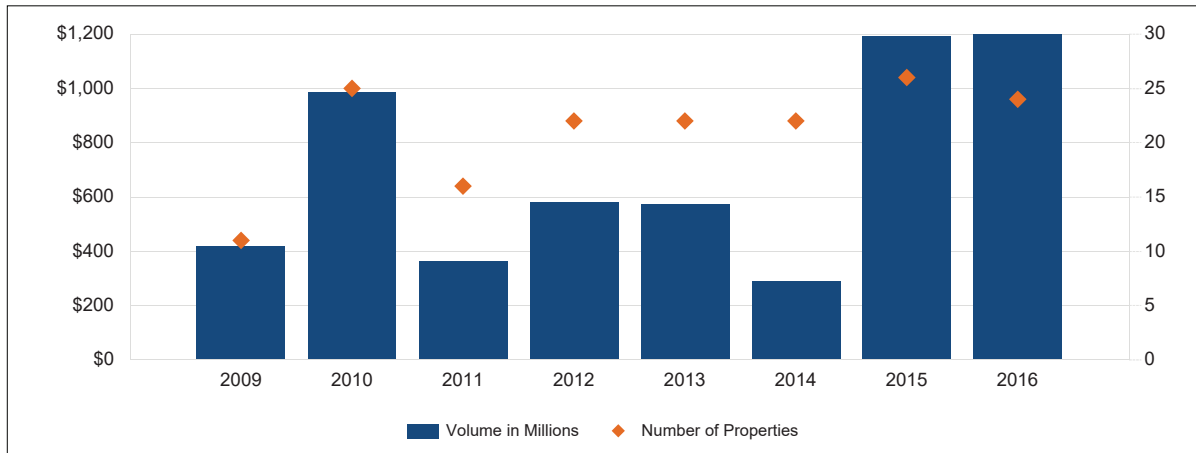


Source: YardiMatrix

## Transactions

- Investor interest was particularly strong in 2016, pushing the transaction volume to nearly \$1.2 billion, a post-recession high. The price per unit also increased, to \$253,898, its highest level in the current cycle.
- Both national and foreign investors are drawn to the market's stability and prospects for appreciation, amid international economic uncertainty. During the first half of 2016, acquisition yields for stabilized assets ranged from the upper 3% to the mid-4% range for Class A assets, and from 4.35% to 5.15% for Class B properties, while cap rates for Class C assets were in the 5.10 to 5.75% band.
- Submarkets with intense activity included Tustin, Fullerton – North, Santa Ana and Huntington Beach. Raintree Partners' \$164 million acquisition of the 628-unit Axiom Tustin ranked as the largest transaction, followed by LaSalle Investment Management's purchase of the 274-unit Elan Huntington Beach for \$131 million.

### Orange County Sales Volume and Number of Properties Sold (as of January 2017)



Source: YardiMatrix

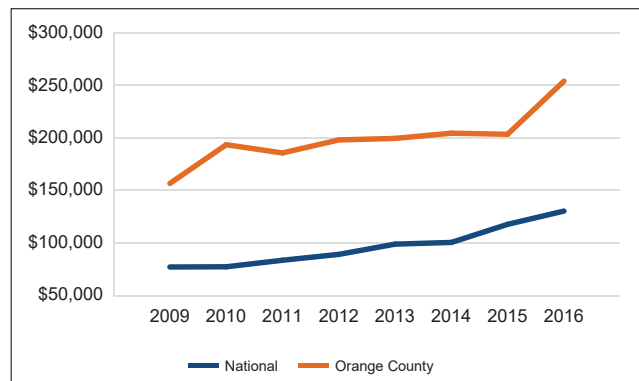
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Tustin	\$233
Fullerton - North	\$214
Santa Ana	\$202
Huntington Beach	\$191
South Orange County	\$85
Costa Mesa	\$68
Anaheim - West	\$60
Placentia	\$44

Source: YardiMatrix

<sup>1</sup> From February 2016 to January 2017

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



Source: YardiMatrix

# Read All About It!



Sunstone Sells  
Orange County Hotel  
For \$125M



Hines JV Acquires Mixed-Use  
Anaheim Campus



Savills Studley Acquires  
Cresa Orange County



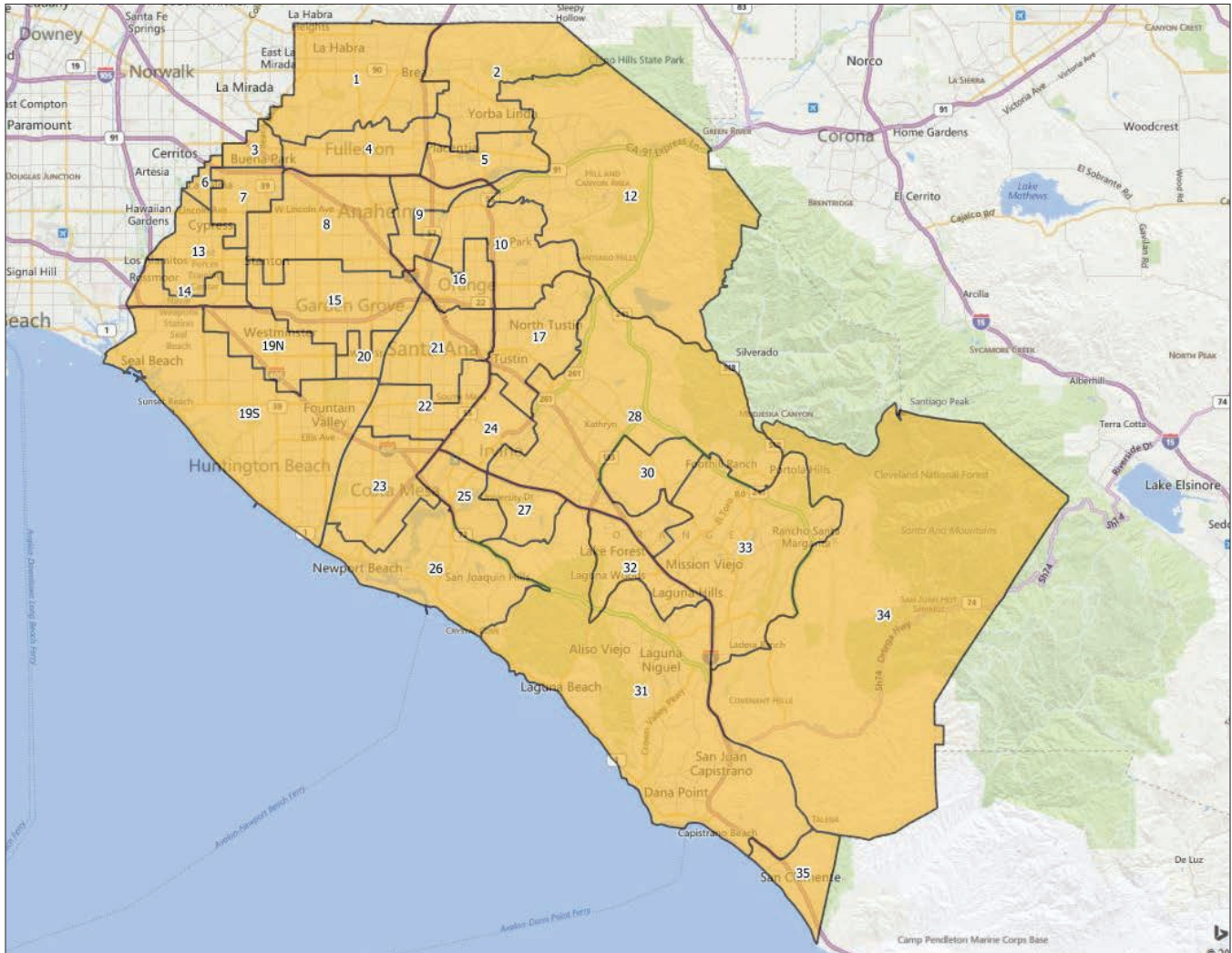
New Affordable Housing  
Opens in Anaheim

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## Orange County Submarkets



Area #	Submarket
1	La Habra
2	West Yorba Linda/Brea
3	North Buena Park
4	Fullerton
5	Placentia
6	West La Palma
7	South Buena Park
8	West Anaheim
9	East Anaheim
10	Central Orange
12	East Yorba Linda/Anaheim Hills
13	Cypress
14	Los Alamitos
15	Garden Grove
16	West Orange
17	Central Tustin
20	West Santa Ana

Area #	Submarket
21	Central Santa Ana
22	South Santa Ana
23	Costa Mesa
24	Irvine North
25	West Irvine
26	Newport Beach
27	East Irvine
28	Central County
30	Lake Forest
31	Laguna Beach
32	Laguna Hills
33	Mission Viejo
34	Santa Margarita
35	San Clemente
19N	Westminster
19S	Huntington/Seal Beach

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## 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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