



Yardi® Matrix

# Orange County's Investor Appeal

Multifamily Report Summer 2017

**Rent Growth Outpaces Nation**

**Developers Ramp Up Construction**

**Acquisition Yields Hit Record Lows**

101  
Benite Cyn Rd  
1 1/4 miles

101  
Newport  
Coast Dr



## Market Analysis

Summer 2017

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## Demographic Shifts Pick Up Speed

Employment gains, a moderate supply of new development and a high barrier to homeownership have bolstered strong multifamily demand in Orange County, pushing up rents and keeping occupancy over 96%.

Despite a slowdown, which followed a broader, national trend, the labor market remains stable, sustained by a resurgent construction industry. Major projects underway include LT Platinum Center, a \$500 million transit-oriented development, which is set to bring retail, residential and hotel space to Anaheim. Tustin Legacy, the most significant ground-up office development in Orange County's recent history, is going up in Santa Ana. Employment is also growing in the professional and business sector, mostly in technology and creative industries.

Housing prices, especially near the coast, have become unaffordable for many middle-class and younger families, producing a net out-migration among those segments. Over the next 25 years, residents age 65 and older are projected to be the highest-growing segment of the population.

Both local and foreign investors are drawn to the region's stability, leading to record-low acquisition yields. Going forward, the rental market may soften, as a significant amount of supply is scheduled to come online in the near future. For 2017, Yardi Matrix expects a rent increase of 5%.

## 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

### Uptown Fullerton



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

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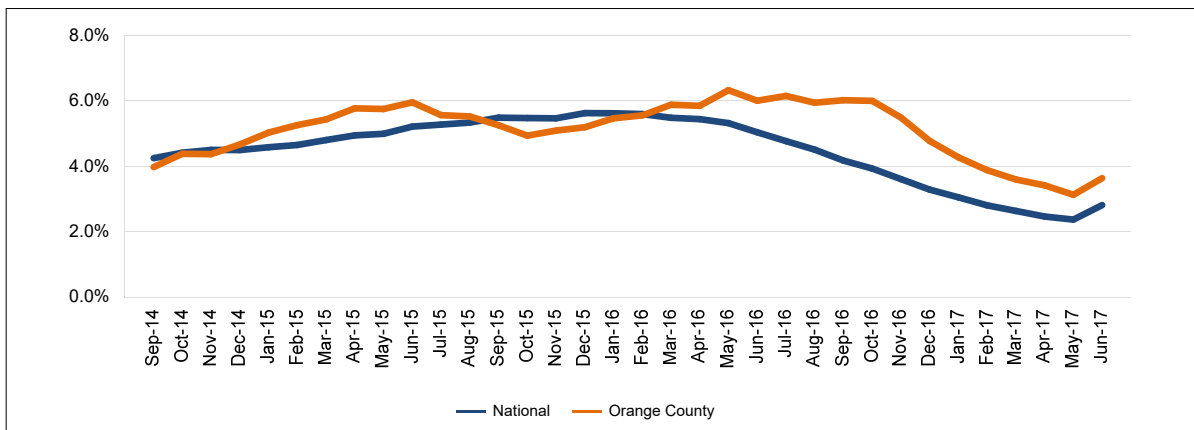
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## Rent Trends

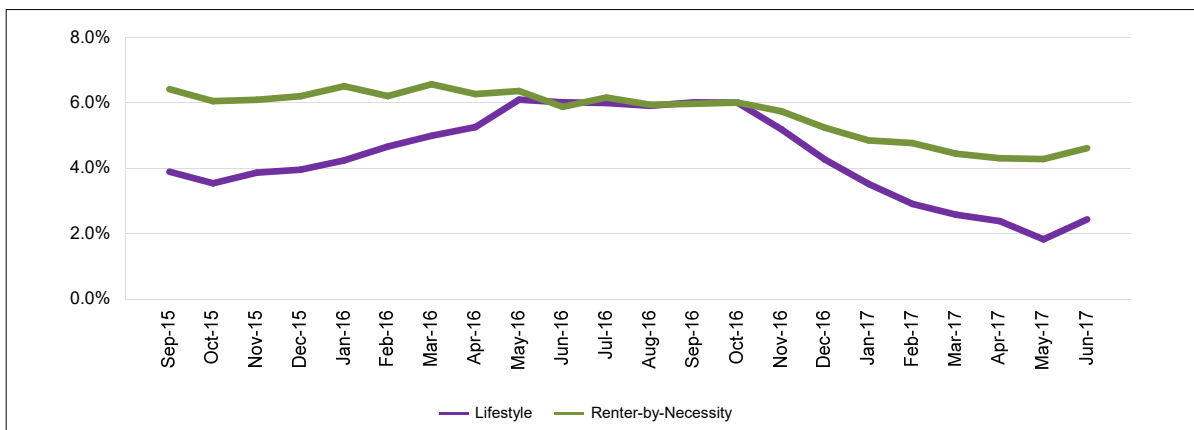
- Rents in Orange County rose 3.6% year-over-year through June, faster than the 2.7% national trend. Monthly rent averaged \$1,992, well above the \$1,349 U.S. figure, while occupancy remained steady at 96.5%.
- Rents in the working-class Renter-by-Necessity segment rose 4.6%, to \$1,788, while Lifestyle rents increased by 2.4%, to \$2,308. The area's housing shortage has forced many workers into long commutes from outside the county. Government surveys show that there are more jobs in the metro than residents who are employed.
- Rent growth was highest in northwest areas, including Westminster (7.2%), La Habra (6.8%), Buena Park–Cypress (5.8%), Anaheim–West (5.7%) and Garden Grove (5.3%). Newport Beach, which ranks as the most expensive submarket in Orange County, saw a 1.6% contraction year-over year as of June, falling from \$2,554 to \$2,513 per month. Rates in Seal Beach, another pricey area for apartment seekers, decreased by 5.5% year-over-year, going from \$2,176 to \$2,056.
- Due to limited multifamily development, a high barrier to ownership and steady employment gains, we expect a rent increase of 5% in 2017.

### 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)

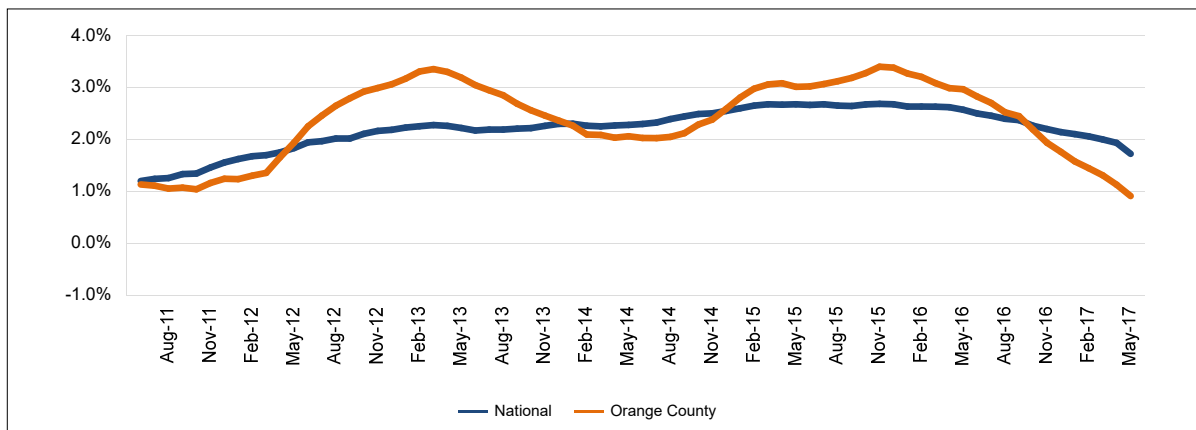


Source: YardiMatrix

## Economic Snapshot

- Orange County added 3,800 jobs year-over-year through May, or a 0.9% increase, well below the 1.9% national rate. Hiring has trended downward over the past year, although unemployment dropped to 3.2% as of May, a figure significantly less than the state's average of 4.7% and among the lowest in the country.
- Sustained by the local building boom, construction was the fastest-growing employment sector. Major projects include LT Platinum Center, a \$500 million transit-oriented development, which is set to bring retail, residential units and hotel space to Anaheim. Professional and business services gained 3,100 employees, followed by leisure and hospitality, which added 1,500 jobs, mostly in the restaurant industry. Manufacturing lost 3,400 jobs, marking the fifth straight year of decline, while transportation and utilities dropped 3,000 jobs.
- The local office market has experienced positive absorption for the past six years, according to JLL's second-quarter report. Leasing activity was strong in Central County, which offers more affordable rents than South County and the Airport area. New developments targeted Irvine Spectrum, where vacancy remained low at 7.6%, despite more than 600,000 square feet of office space coming online since last year's first quarter. Large users include Mazda, which relocated its U.S. base to 200 Spectrum Center, the tallest building in Orange County. QLogic, Crown Castle, Cavium and AutoGravity also signed major leases in Irvine Spectrum.

### 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	%
15	Mining, Logging and Construction	101	6.4%	3,700	3.8%
60	Professional and Business Services	297	18.7%	3,100	1.1%
70	Leisure and Hospitality	215	13.6%	1,500	0.7%
90	Government	166	10.5%	1,000	0.6%
80	Other Services	51	3.2%	500	1.0%
55	Financial Activities	117	7.4%	500	0.4%
50	Information	26	1.6%	0	0.0%
65	Education and Health Services	205	12.9%	-100	0.0%
40	Trade, Transportation and Utilities	256	16.1%	-3,000	-1.2%
30	Manufacturing	153	9.6%	-3,400	-2.2%

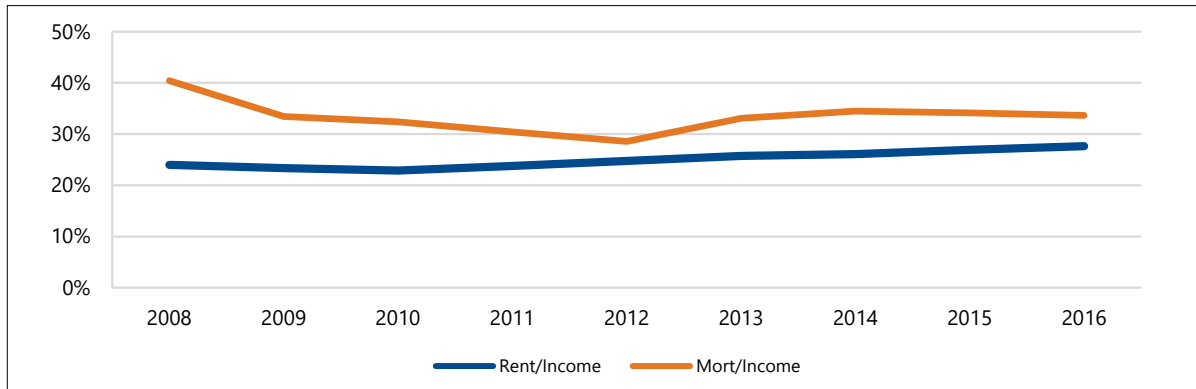
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

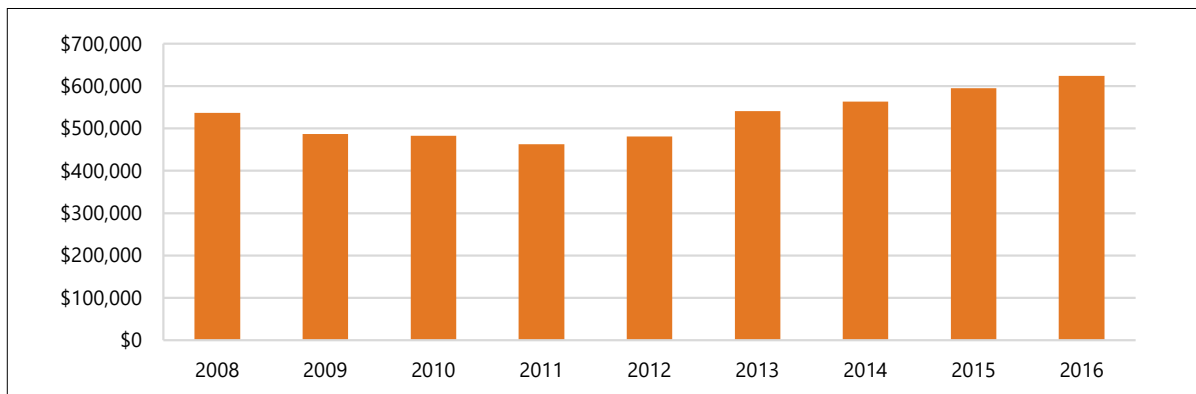
- The median home price in Orange County rose to a cycle high of \$624,168 in 2016, while remaining below the \$700,000 historic peak level recorded in 2007. The average mortgage accounts for more than a third of the area's median income, while the average rent is more affordable, comprising about 28%.
- Recent Internal Revenue Service data shows a net out-migration of residents in the 35-54 age cohort, especially those making between \$100,000 and \$200,000 annually, who tend to belong to the child-rearing middle class. In response to the workforce housing shortage, the Urban Land Institute launched an initiative this year to promote the development of residential projects on underutilized retail sites along transit corridors.

### 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

- Orange County added 15,959 residents in 2016, a 0.5% increase, below the national growth rate of 0.7%.
- Since 2012, the metro gained 87,597 residents, a 2.8% increase, slightly lower than the 2.9% U.S. average.

### Orange County vs. National Population

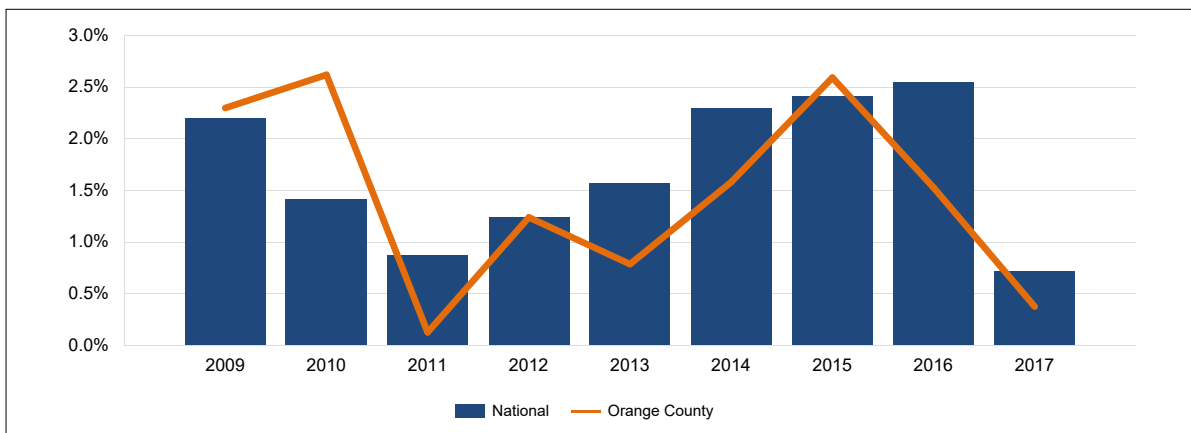
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Orange County Metro	3,084,935	3,112,576	3,134,438	3,156,573	3,172,532

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

## Supply

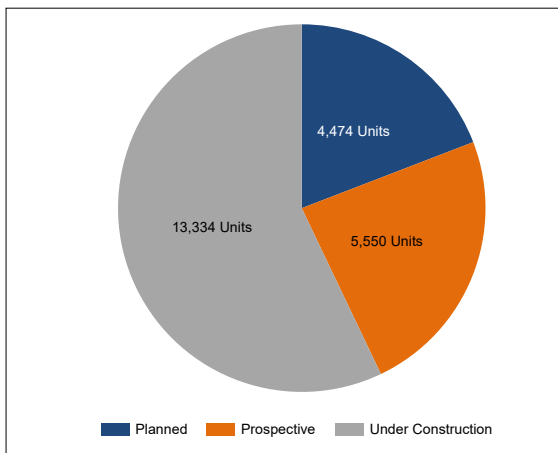
- More than 720 units came online in the first half of 2017, and development is expected to accelerate, bringing the total number of completions to approximately 4,500 units by the end of the year.
- More than 13,300 units were under construction as of June, while another 10,000 were in the planning stages. And while demand for apartments remains solid, land for development is scarce, pushing up construction costs, as well as rents. Consequently, many middle-class families are being priced out of the market, which has led to net population losses in the 35-54 age group.
- Development activity is highest in Irvine, a fast-growing city with high-performing schools. West Irvine and South Irvine combined have more than 4,000 units under construction. Developers are also targeting Anaheim, with a revived interest in the Platinum Triangle, which is home to the ARTIC transportation center. Coastal areas, including Newport Beach and Huntington Beach, are also seeing new development, with more than 1,800 units underway. Another 900 units will soon open in Santa Ana, which is close to the upcoming FLIGHT at Tustin Legacy, the most significant ground-up office development in Orange County's recent history.

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



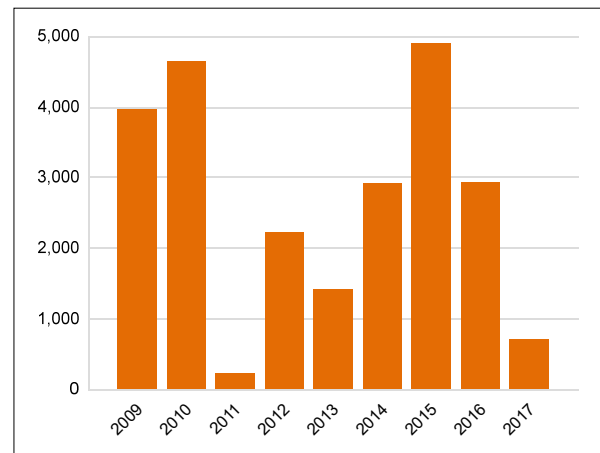
Source: YardiMatrix

### Development Pipeline (as of June 2017)



Source: YardiMatrix

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

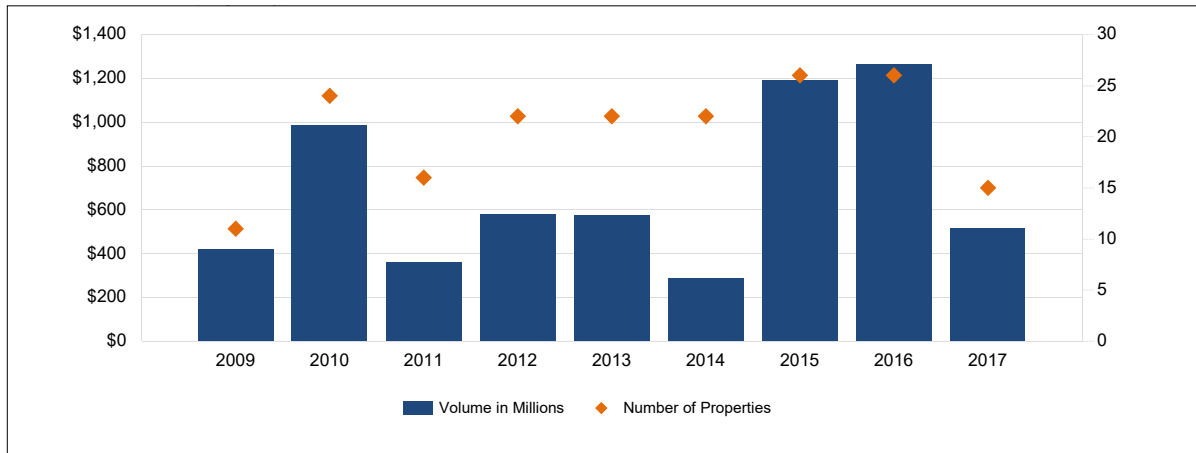


Source: YardiMatrix

## Transactions

- Some \$518 million in multifamily deals closed during the first half of 2017, mostly in the working-class Renter-by-Necessity segment. The region, which continues to see strong rental demand, has drawn national and foreign investors. Nearly \$1.3 billion in assets traded last year, a post-recession peak.
- The average price per unit of \$245,481 during the first half of 2017 remains well above the national average of \$132,549. Because of the area's limited supply and high demand, acquisition yields hit record lows, hovering in the 4% range for stabilized Class A and B assets.
- Advanced Real Estate Services' \$99 million acquisition of the 421-unit Uptown Fullerton in Fullerton, Calif., ranked as Orange County's largest transaction for the 12 months ending in June. The luxury community is within walking distance of the Brea Mall, while California State University, Fullerton is less than a mile away.

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



Source: YardiMatrix

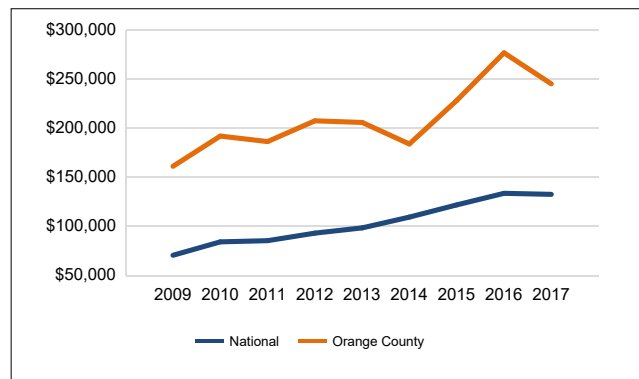
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Fullerton-North	292
Tustin	276
Santa Ana	226
Huntington Beach	191
Garden Grove	80
Anaheim-West	70
Fountain Valley	52
Costa Mesa	46

Source: YardiMatrix

<sup>1</sup> From July 2016 to June 2017

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



Source: YardiMatrix



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OC Little Saigon Design**



**RD Olson Breaks Ground  
On 4th Affordable Community**



**OC Corporate Campus  
Trades for \$443M**



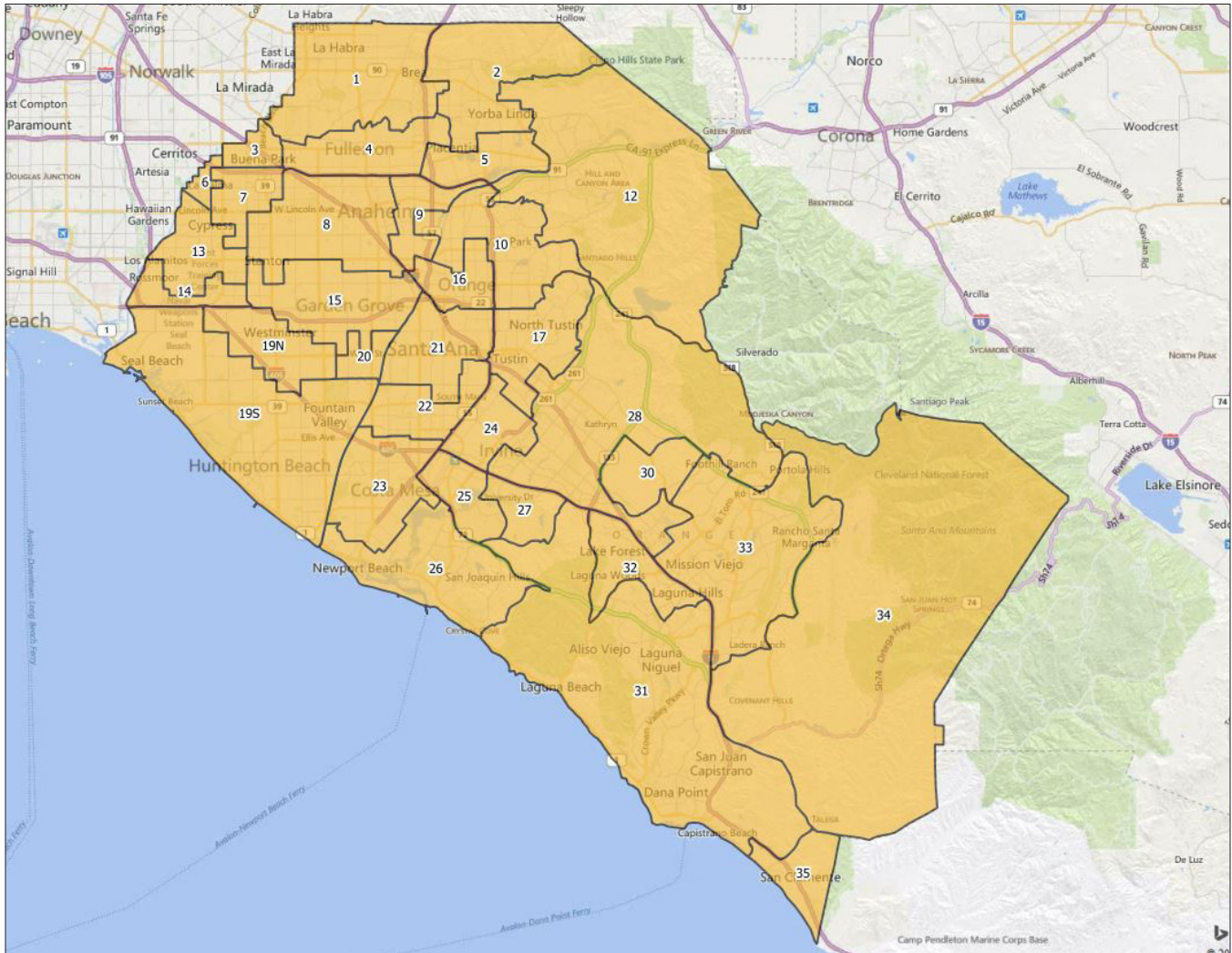
**Berkadia Closes Sale  
Of Student Housing Assets  
For \$146M**

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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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