



MULTIFAMILY REPORT

OC: Market Recalibrating

April 2023

Transaction Activity, Deliveries Slow

Rent Movement Trails US

Job Recovery Ongoing

ORANGE COUNTY MULTIFAMILY



Market Tight Despite Softening

Despite some dampening, Orange County fundamentals remained healthy at the start of 2023. Rents contracted 0.4% on a trailing three-month basis through February to \$2,687, lagging the U.S. figure, which was down 10 basis points to \$1,702. The occupancy rate in stabilized properties dropped 100 basis points in the 12 months ending in January, but at 96.7%, the metro remained one of the tightest major rental markets in the country. Interestingly, the drop in occupancy was steeper in workforce communities.

The unemployment rate in Orange County dropped to 2.5% in December, according to preliminary data from the Bureau of Labor Statistics, leading the state (4.1%) and the U.S. (3.5%), while trailing San Francisco and San Jose. Although unemployment surpassed pre-pandemic values, not all jobs lost due to the pandemic were recovered. The job market expanded by 4.4%, or 70,300 positions, in 2022, outperforming the 3.7% U.S. rate. Financial activities, government and other services lost 5,300 jobs combined. Leisure and hospitality led gains, adding 22,400 positions. The sector is poised for more growth, including a planned \$4 billion sports and entertainment district.

No sales or deliveries were confirmed in the metro this year as of February, reflecting the impact of macroeconomic challenges, including high inflation and rising interest rates. Still, 8,754 units were under construction, and 2022's multifamily sales totaled nearly \$1.7 billion.

Market Analysis | April 2023

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Recent Orange County Transactions

Rize



City: Irvine, Calif.
Buyer: Kort & Scott Financial Group
Purchase Price: \$190 MM
Price per Unit: \$523,416

Anavia



City: Anaheim, Calif.
Buyer: Chapman University
Purchase Price: \$160 MM
Price per Unit: \$640,000

Grove House



City: Orange, Calif.
Buyer: Advanced Real Estate Services
Purchase Price: \$42 MM
Price per Unit: \$461,111

Bolsa West

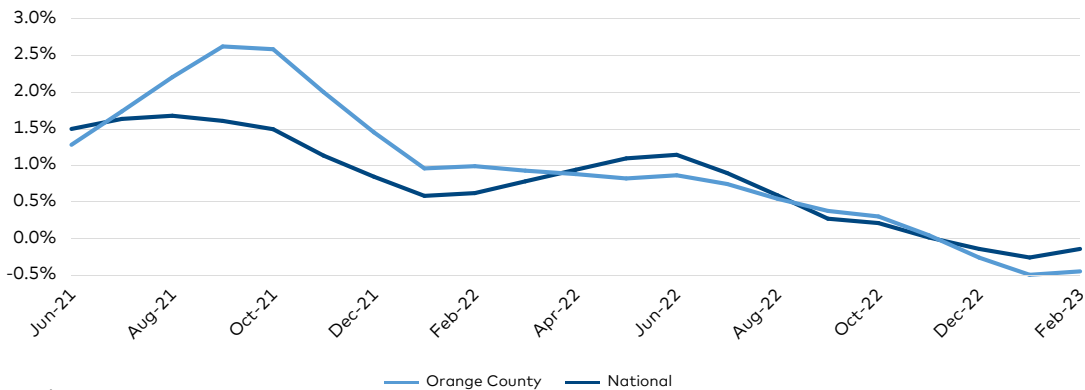


City: Garden Grove, Calif.
Buyer: TN Investments Group
Purchase Price: \$20 MM
Price per Unit: \$333,333

RENT TRENDS

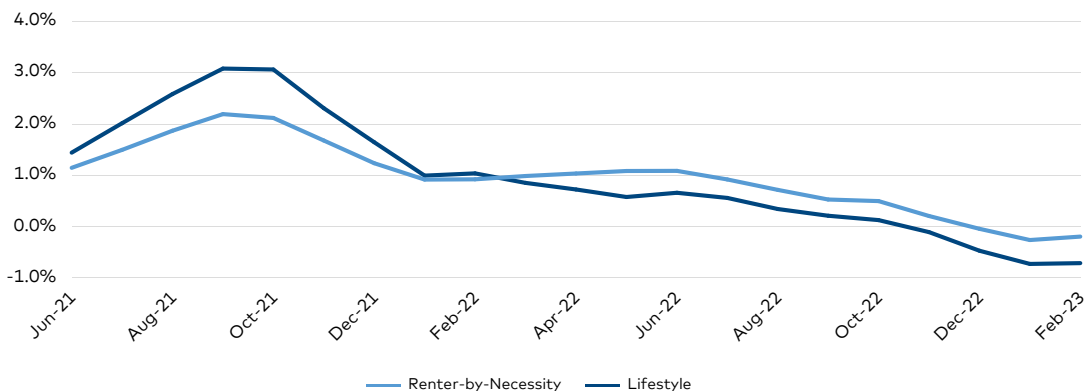
- ▶ Mirroring the national trend, rent gains in Orange County remained negative for the third consecutive month, down 0.4% on a trailing three-month (T3) basis through February, while the U.S. rate declined 0.1%. On a year-over-year basis, rents were up 3.0%, lagging the 4.8% national rate. At \$2,687, Orange County's average asking rate was well above the U.S. figure, which has been flat, at \$1,702, since December.
- ▶ The occupancy rate in stabilized properties lost 100 basis points in the 12 months ending in January, but at 96.7%, it still supported the metro as on one of the country's tightest rental markets. Mirroring a trend unique to high-cost metros, the occupancy decline was greater in the RBN segment—down 130 basis points to 97.0%—while in Lifestyle units, it dropped 70 basis points to 96.2%.
- ▶ Unsurprisingly, rent depreciation was greater in the Lifestyle segment, down 0.7% on a T3 basis in February, to \$3,057. Upscale rates began contracting in November. More resilient, working-class Renter-by-Necessity rents held on longer, but dipped two months later by 0.2%, on a T3 basis through February, to \$2,410.
- ▶ Of the 26 submarkets tracked by Yardi Matrix, four posted year-over-year dips in average asking rents and two recorded double-digit increases. In Newport Beach, Orange County's most expensive area, rents contracted 0.9%, to \$3,435.
- ▶ The single-family rental sector also stalled, with rates down 0.2% year-over-year as of February, to \$3,599, while occupancy slid 0.3% in 12 months.

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 unemployment closed 2022 at 2.5%. The rate marked a 150-basis-point improvement from January and remained on a steady recovery path in the first half of last year. Despite some spikes in the second half of 2022, the metro's rate was ahead of the state (4.1%) and the U.S. (3.5%) going into 2023. Among major California metros, Orange County trailed only San Francisco (2.4%) and San Jose (2.1%).
- ▶ Unemployment surpassed pre-pandemic levels, but not all jobs lost due to the health crisis were recovered. Moreover, the job market's expansion continued to decelerate throughout 2022, up just 4.4%, or 70,300 positions, but still leading the 3.7% national rate. Three sectors—government, other services and financial activities—contracted for 5,300 jobs combined.
- ▶ Leisure and hospitality led gains, up 22,400 jobs during the period. According to Visit Anaheim, more than 25.5 million people visited Anaheim in 2022, above 2019's 24 million visitors. Another boost may come from the recently approved \$4 billion sports and entertainment district ocV!BE. Still, high inflation and a potential recession will likely impact tourism in the metro.
- ▶ Education and health services added 15,900 jobs and is poised for a new boost, as The Irvine Co. announced plans to build a 532,000-square-foot life science campus at its UCI Research Park.

Orange County Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	229	13.5%
65	Education and Health Services	258	15.2%
60	Professional and Business Services	338	19.9%
30	Manufacturing	158	9.3%
15	Mining, Logging and Construction	110	6.5%
40	Trade, Transportation and Utilities	263	15.5%
50	Information	26	1.5%
90	Government	159	9.3%
80	Other Services	49	2.9%
55	Financial Activities	113	6.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Orange County's population declined for the second time since the 2010 Census. In 2021, the metro lost 16,292 residents, for a 0.5% downtick. Meanwhile, the U.S. population rose 0.1%. The metro's demographic expansion has been sluggish, up 5.0% since 2010, trailing the 7.3% U.S. figure.

Orange County vs. National Population

	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Orange County	3,175,579	3,170,851	3,184,101	3,167,809

Source: U.S. Census

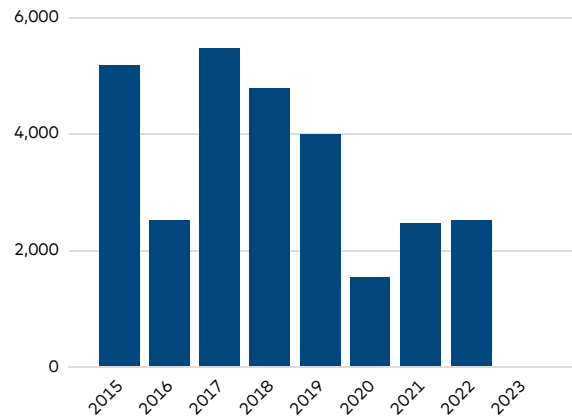
SUPPLY

- ▶ Developers had 8,754 units under construction as of February and another 31,000 units in the planning and permitting stages. A significant 75% of the development pipeline comprised Lifestyle units, while the affordable component accounted for 19%.
- ▶ Persisting volatility fueled by prolonged rising inflation and interest rates, combined with high construction costs and a limited workforce, will likely delay project deliveries. The number of new projects has already started to dwindle, visible in the number of construction starts, which in 2022 dropped to 1,861 units, from 2,626 units in 2021. Moreover, with construction financing in short supply, the pipeline will likely diminish further. As of February, no new projects were started in Orange County. Yardi Matrix anticipates an annual stock expansion of 1,789 units, the equivalent of 0.9% of total stock.
- ▶ Half of the metro's submarkets had at least 50 units underway as of February, and four had pipelines above the 1,000-unit mark. Santa Ana (1,866 units underway) and South

Orange County (1,781 units) led the pipeline. Combined, these accounted for nearly half of the entire under-construction volume.

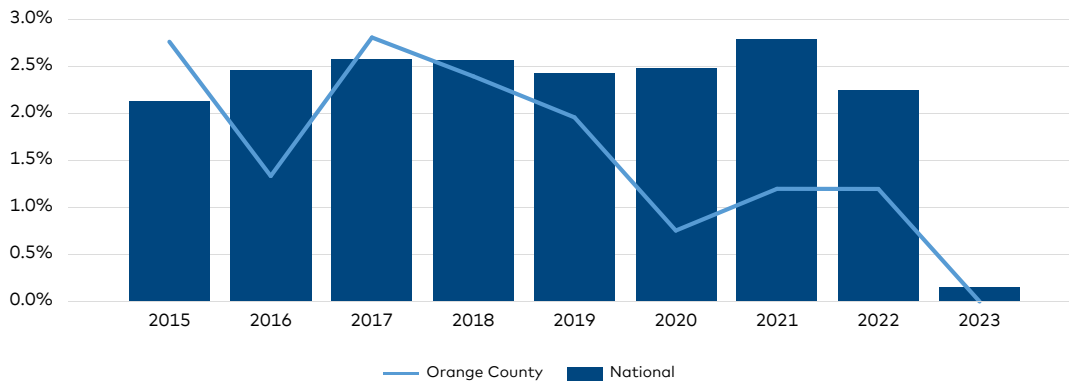
- ▶ Promenade at Irvine Spectrum was the largest project underway at the start of the year. Irvine Co.'s 1,781-unit asset is slated for completion at the end of 2024.

Orange County Completions (as of February 2023)



Source: Yardi Matrix

Orange County vs. National Completions as a Percentage of Total Stock (as of February 2023)

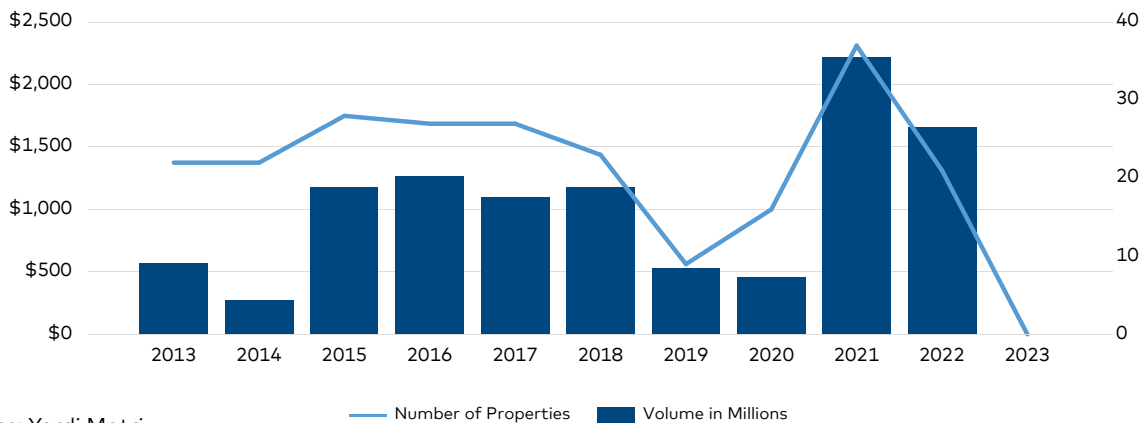


Source: Yardi Matrix

TRANSACTIONS

- ▶ Transaction activity moderated in the second half of 2022, but the year ended with nearly \$1.7 billion in multifamily sales, the second-best year of the decade. The metro had a good run on the investment front during 2021 and 2022, but current economic woes are impacting investor confidence. As of February, no sales were registered in Orange County in 2023. Transactions will slow down further until inflation cools and interest rates fall, challenges that are expected to affect property values, as well.
- ▶ The national price per unit decreased 3.0% from December 2022, to \$204,722 in February. Last December, the per-unit price in Orange County stood at \$451,532, a 5.6% year-over-year increase. The sales composition was tilted in favor of value-add plays, with RBN transactions representing more than two-thirds of deal volume.
- ▶ The largest sale recorded during the last quarter of 2022 was Kort & Scott Financial Group's acquisition of Rize from Fairfield Residential. The asset sold for \$190 million, or \$523,415 per unit.

Orange County Sales Volume and Number of Properties Sold (as of February 2023)



Source: Yardi Matrix

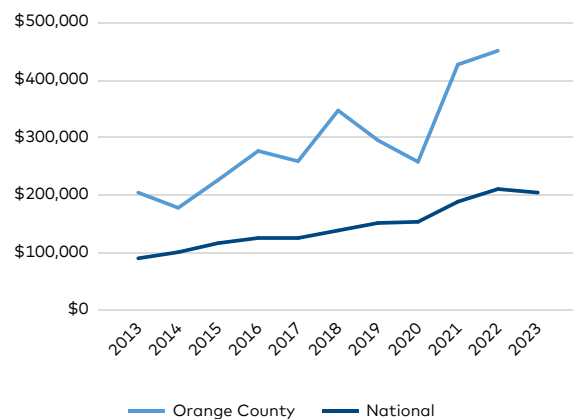
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Placentia	310
Anaheim-West	284
Anaheim-Central	224
West Irvine	190
Costa Mesa	172
Garden Grove	81
Huntington Beach	53

Source: Yardi Matrix

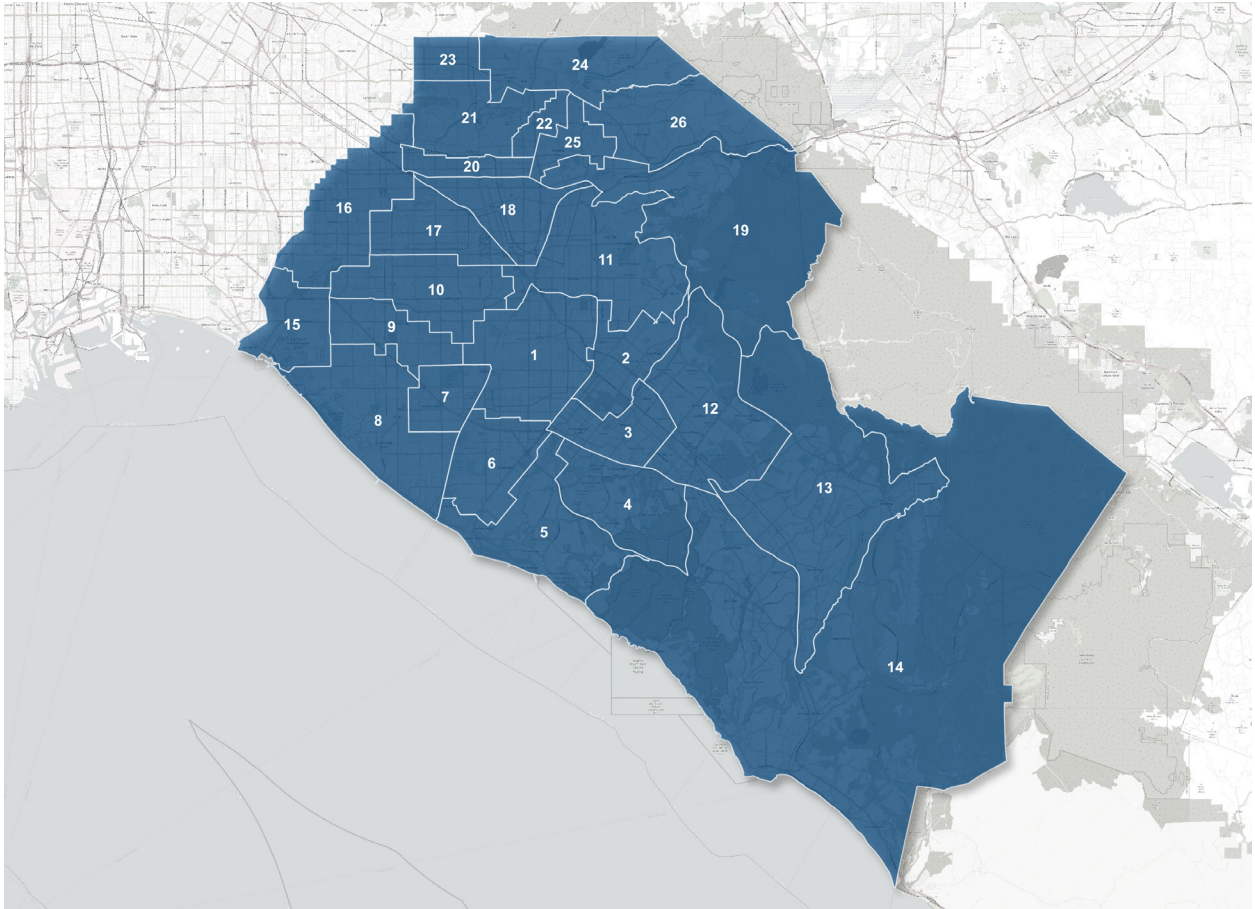
¹ From March 2022 to February 2023

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 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 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, 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 or call Ron Brock, Jr., at 480-663-1149 x2404.



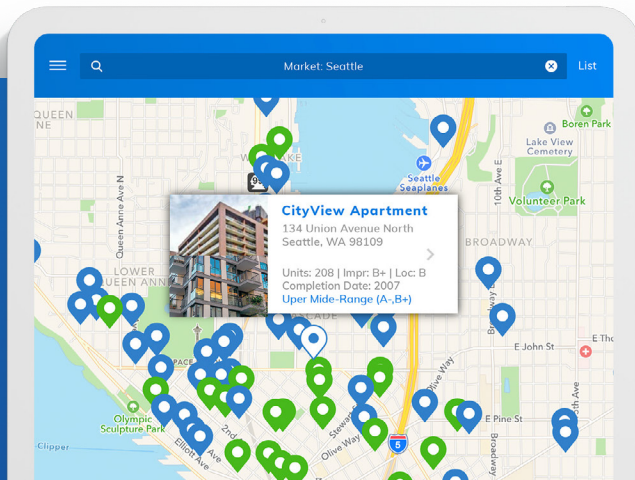
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MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
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